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**The State Treasurer's**

# **ANNUAL REPORT**

**Fiscal Year 1988 / 1989**

**North Carolina  
Department of State Treasurer**

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State of North Carolina  
Department of the Treasurer

HARLAN E. BOYLES  
STATE TREASURER

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RALEIGH, NORTH CAROLINA 27603-1388

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The Honorable James G. Martin  
Governor of North Carolina  
Members of the Advisory Budget Commission  
Members of the General Assembly  
Citizens of North Carolina

Sir; Ladies and Gentlemen:

This annual report, in keeping with past practice and the requirements of law, provides a full array of quantitative data and explanatory comments on the operations and responsibilities of the Department of the State Treasurer.

The Treasurer's annual report is intended to present another chapter in the continuing history of responsible government in North Carolina.

The history of public finance in North Carolina is in reality a commentary on the efforts of our General Assemblies through the years to provide essential services for the people, such as schools, roads and clean water; but it also attests to the fact that we have kept a balanced budget, managed our debt well and for more than a half century — having learned from the experiences of the Great Depression — we have based our governmental operations on sound business principles.

We make this report with much pleasure because we are proud of the stewardship we are able to demonstrate through the efforts and dedication of our departmental employees. Together, they deserve the credit for our accomplishments and thus, in behalf of the people of North Carolina, I want to say to them, "we thank you for a job well done."

Those of us in public service have a fiduciary responsibility to assure the taxpaying public that their State government is both accountable and responsive — accountable for the resources and service programs entrusted to our care — and responsive to the public interests.

Our unrelenting promise, too, is that our efforts shall continue.

Sincerely,

A handwritten signature in cursive script, reading "Harlan E. Boyles".

Harlan E. Boyles  
State Treasurer



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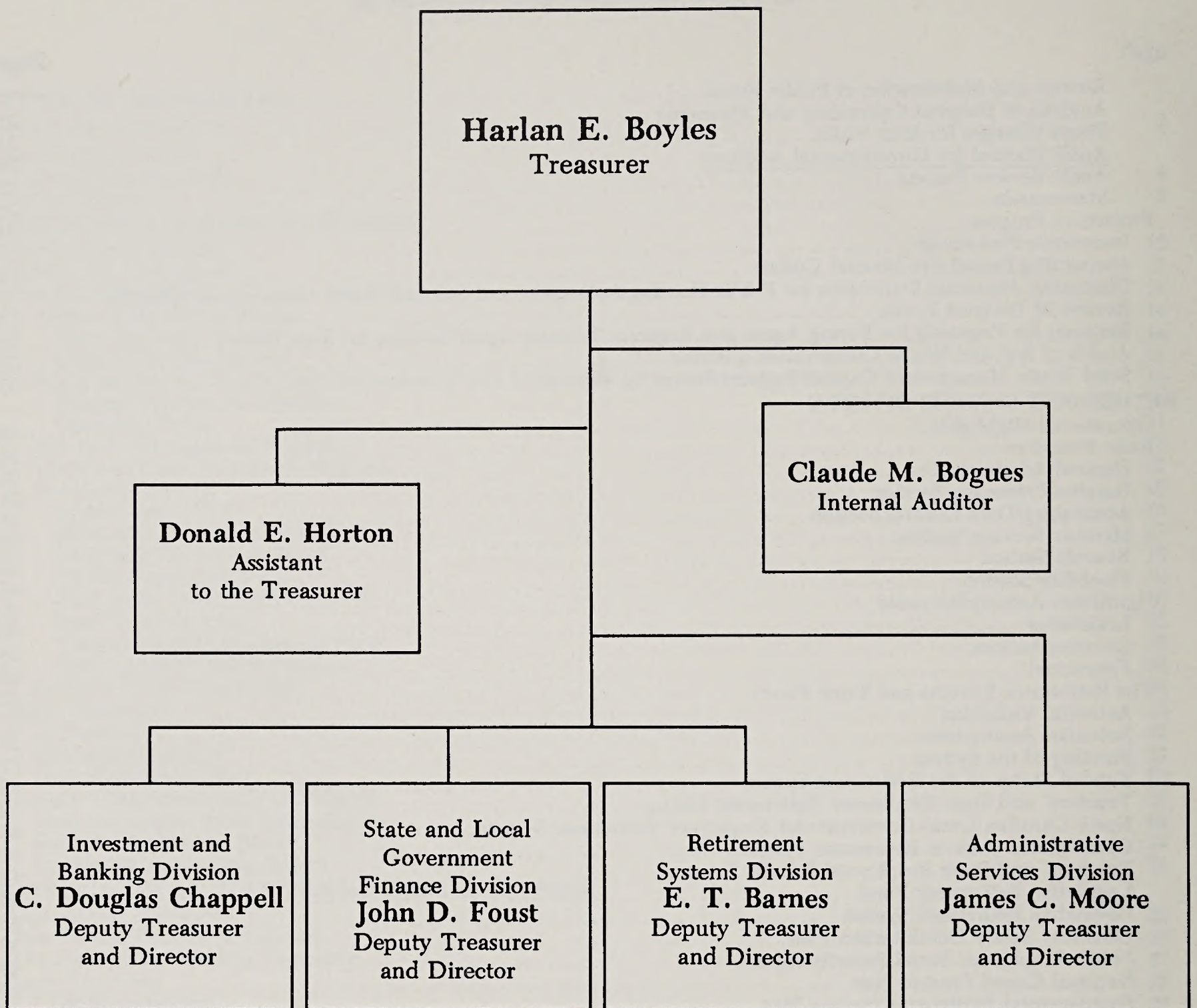
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# IN PERSPECTIVE

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The public's business is always an open issue. Thus, it is in this context that we have come to use this portion of the Treasurer's annual report to address a few philosophical issues which we feel are worthy of public attention and discussion. The issues raised are from the perspective of the State Treasurer as an ex-officio member of various State boards and commissions. The objective is, of course, to speak with constructive purpose.

State government is big business. State government is the people's business. It must be actively managed and it must be given leadership and direction.

The people get the kind of government they are willing to accept. Change is inevitable. Progress and achievement should be our mutual objectives.

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## The People's Business

The biennial budget of State government now exceeds \$24 billion, some 24 times the amount 30 years ago.

Are the programs and services provided by State government what the people want? Do the people know and understand what they are paying for? If the people were given a simple but full report on the programs and services of State government — with their costs identified — what changes would they propose or insist upon?

Who benefits from the programs and services of State government? Who determines the nature and degree of assistance to be provided? Is equity assured?

It's our belief that until the State's budget procedures — planning, approval, and administration — are upgraded and made useful as a management tool, the people themselves can have

little input to "the people's business" in North Carolina.

We cannot help but question, as we have over the years, whether the General Assembly can possibly understand or be familiar with the State's program objectives — what the programs are intended to achieve and why — their expected results — and their value to the public. The people can understand and evaluate well described and quantified services, but they can make little sense out of the present nondescript line item budgets which show only such things as salaries, travel, postage and equipment.

Program budgeting is essential to responsible State government. Such a procedure is the tool required to enable the people to cull and pare and to improve the programs and services underwritten with public funds.



## North Carolina's Public Schools

We have studied public education to death — we have experimented with virtually every suggestion made — and yet, there comes a time for performance.

Now is the time for the delivery of student instruction in the classroom.

Talk is cheap. Results require action.

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### To the Basics of Government

We hear it everyday. We must improve public education; we must address our infrastructure needs; we must reduce crime and reduce or eliminate the use of narcotic drugs; we don't have adequate jails and prisons; we must provide more hazardous waste and solid waste facilities; the list goes on and on and yet, we don't want to raise taxes.

How are we to cope? How do we make ends meet?

We start with a plan — a plan based upon solid, credible information. We end with reality. We distinguish between "what we need" and "what we want." We know that ultimately government, at all levels, has to reform and rethink the way it does business. Government has to make tough choices about the programs and services it will provide. Government has to

achieve a balance between its spending and its revenue. It must enlist the assistance and the involvement of the private sector, through public-private partnerships or some similar arrangement. Public-private partnerships can be both a management tool and a financial tool — if carefully crafted. Public-private partnerships also must be viewed in the light of their potential for bridging the gap between public needs and public resources.

We must reinforce the reality that government cannot be all things to all people. Indeed, we must take a new look at what government can afford to do and do well, and what government cannot afford to do.

Through necessity, we may soon see that government's role is not necessarily to provide services, but to see that they are provided.

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### A Privatization Summit is Proposed

It is said that private sector resources are helping to meet public sector needs now more than ever before. It is also said that now is an exciting time for private sector-public sector partnerships.

Are these statements correct and is privatization a way of life in State and local government? How might we find out, and how do we give direction to their use in North Carolina?

Obviously, privatization has many meanings. We know, of course, that when government and private industry work together in cooperative partnerships, each brings to the table certain advantages, and the State and the communities usually benefit by the effort. There is also value in giving all citizens a vested interest in the State's well-being. Too, this country has a rich heritage of problem-solving. That is why it is important

to explore in depth the ways public-private partnerships can be formulated and implemented. Should we be for or against privatization?

Here is what those with experience have said about privatization:

- It is important to recognize that privatization does not reduce the programs and services used by the public. Rather, when properly implemented, privatization can insure the continued provision of those programs. Privatization should not be sold as a way of reducing cost, but as a way of improving services over the long term.
- The concept of privatization has been blurred somewhat by the frequent attempts to use it to reduce the fiscal budget. It is rare in designing the concept that you get a full debate of cost benefits; which delivery system is likely to most



efficiently allocate both the public service and who bears the cost of providing the service.

- Privatization is a means of reducing the amount of money governments spend without curtailing quality of service.
- We have become more resourceful and imaginative because our will is larger than our wallet. Said the British scientist: "Gentlemen, we have no money, and therefore we must think."
- Public-private partnerships bring the forces of creative dynamics to the problems of society. The challenge is to solve problems using the ingenuity of the private sector. We face enormous challenges as we enter the 1990's. It is a time when new money will be hard to find. The problem of infrastructure financing will be solved only by actions taken in every community across the country. Expanding public-private partnerships is one solution.
- One element in the appeal for privatization is the assumption that when a public function is privatized, it is somehow no longer a responsibility of public sector management. This assumption does not comport with reality. Privatization results in new and more sophisticated demands upon public management.
- Program managers are finding that their political superiors are more interested in whether appropriate moneys have been committed in a timely manner and contracts awarded in a politically acceptable mix, rather than in program results.
- The challenge facing privatization advocates as well as public management leadership is to incor-

porate a number of factors — economic, legal, managerial, and political — into criteria for determining which public functions are appropriate for assignment to the private sector for performance, and which functions are best assigned to managers and employees of government.

- The choice is not whether there will be public management of privatization; such management is given as long as governmental authorization of public funds is necessary to implement a public policy. The choice is whether or not that management will be enlightened by sound doctrine and administered by competent public managers.
- There are three basic challenges that must be considered: (1) to identify the areas in which government could take advantage of public-private partnerships; (2) to identify the legal and regulatory barriers which have to be dealt with in order to implement various options; and, (3) to develop incentives to encourage participation.
- Privatization can provide a unique opportunity.

The recommendation? Let's find out if the concept is for North Carolina. To answer the questions and to overcome identified concerns requires something very simple: specificity; specificity as to which public services would benefit from public-private partnerships. Once this is known, the legal principles can be tailored to suit the new public purpose.

The Governor should initiate a privatization summit.

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## Tax Reform In North Carolina

The legislation enacted in 1989 to tie the computation of the State income tax to the Federal income tax was enacted notwithstanding significant and major unanswered questions. In truth, it was a solution looking for a problem. It will have the effect of delegating to the U. S. Congress the responsibility for providing the major resources for the operation of State government.

In all measures of major tax reform, the question is who is helped and who gets hurt? Revenue neutrality is usually in the eye of the beholder.

The controversy and the debate on this particular

measure is not over. That's because the legislation represents a major tax increase to the middle-income North Carolinians — who now carry the major portion of the burden of government at all levels; the very people who get little consideration when handout programs are devised and enacted into law.

Instead of tax reform to correct inequities, the result now turns out to be a legislative package designed to place a heavier burden on the State's work force. What a shame!



## To Repeal or Not to Repeal the Tax On Food

Lest we forget, the programs and services of State and local government are financed through a complex system of taxes, charges, fees and interest from investments. Since most government services are such that individuals cannot be assessed directly for the benefits they receive, the amount of taxes collected generally is not directly related to the benefits received from their use. Thus, the State's tax structure is only one part of the State's fiscal structure. It is for these reasons, and others, that we cannot properly evaluate the structure of taxes without also examining the structure of expenditures.

To call for a repeal of the State and local sales taxes on food, without addressing the implications for increased taxes elsewhere or their impact on government programs, is both representative and indicative of why our national fiscal policy currently is in total disarray. We simply cannot have our cake and eat it, too.

To label a tax regressive tends to ignore the fact that the impact of the taxes so labeled may be offset by government programs that benefit low income families proportionately more than middle-income families. Also ignored is the fact that low-income families do not pay income taxes, whereas the middle and higher income families do; thus, the relative tax burden tends to become equalized — at least more so than is recognized by repeal proponents.

The case against repeal becomes even more convincing when we include in our analysis the tax structure and the expenditure structure of all three levels of government — federal, State and local. If you are prone to do so, you can make your case for repeal only if you are permitted to take a portion of the facts and manipulate them to your advantage.

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## Some Thoughts/Questions on the Nation's Tax and Budget Policies

Permanent and fundamental reform of the nation's tax system is an important goal if our national government is to raise revenues, combat the deficit, improve the trade balance, and reduce reliance on foreign investment. Undoubtedly, the current system has serious flaws; it is overly complex; it fosters a large underground economy; it encourages dubious tax shelters; and, it engenders a perception of unfairness. These are only some of the factors the experts say have contributed to the decline in voluntary compliance — the underpinning that any tax system must have.

- Is this Nation's income tax system politically beyond repair?
- When a nation's major tax source rewards spending, debt creation and consumption and discourages savings, investment and productive employment, is it not time for change?
- Is the heavy reliance upon the income tax realistic — given the problems of compliance and enforcement?

- What about abandoning or reducing our dependence upon the net income tax (with its graduated rate structure) in favor of a gross receipts (or national sales) tax, with cash rebates for the poor? No retail exemption, no exclusions and no preferential treatment for special interests. Foreign exports would be favored and the tax advantage for foreign imports would be removed (since the income tax on the domestic producer will have been repealed or substantially reduced).

- And what about the budget deficits? One answer — consequent to a major change in the tax structure: with the protective and self-serving influence of the special interests having been removed from the Congressional scene (there, largely, to garner tax advantages), and by getting a proportionate share of taxes from the underground economy (which now escapes taxation), and by establishing a level playing ground for the nation's domestic producers, surely our Congress can adjust the tax rate to equal the budget out-go.



## The Not-for-Profit Organizations: An Observation

At the risk of questioning something which has become almost as sacrosanct as motherhood, apple pie, or the American flag, it would seem that we are fast becoming constrained to take a closer look at an institution which has become ubiquitous on both the national and the local scene: the non-profit organization.

Originally conceived as an entity which would accomplish the most good for the greatest number, and at minimal cost, the non-profit organization has proliferated to the point where it meets our eyes at every turn — and what we see is now by no means always beneficial, or without serious flaws.

Though they have long been thought to be “pure,” selfless, and without bias, the non-profit organizations have now entered into almost every field of endeavor, and questions are beginning to arise as to whether their presumed advantages outweigh the negative factors which are becoming increasingly more evident. Ranging in size from such a creation as the well-known AARP (American Association of Retired Persons) to the smallest hospital or art museum, non-profits are now everywhere with us. Some of them are impressive in their achievements, but others seem destined to distort the normal American way of doing business. Fueled by membership dues, tax money or charitable grants, these organizations are typically run by boards of trustees which have been freed from the normal constraints of showing that their activities are producing worthwhile results, as evidenced by their continuing financial health. Without the need for showing a normal profit, they are able to pay handsome salaries to those who direct them, acquire physical property without having earned the money to pay for it and then, when their budgets pinch, are able to turn to government agencies, charitable foundations, or

the general public for contributions with which to make up their deficits. The question arises: Is this sort of *modus operandi* favorable, worthwhile, or in the public interest?

Many non-profits are dependent upon the public's tax money, but do they demonstrate that they are really earning the right to use this money? Or are they, in many instances, merely seeking contributions in one guise or another, to make up deficits incurred from sloppy management practices? The discipline of showing a profit is not there, so from whence does their accountability spring? At least, if the normal profit motive is in play, there is a yardstick by which success may be measured. If the profit motive is not there, how can their effectiveness — in many instances — be measured?

By the terms of their charters, non-profits do not pay taxes, though many of them have association with affiliates which do make profits, and which do so under the umbrella of selflessness and non-profitability. The question then arises: Is this sort of arrangement really fair? Such is the lustre of some of these organizations that people will subscribe to them, and will support them, when the services which are purchased could be secured elsewhere at a lesser cost, or at a higher level of quality. These are real and valid considerations, and it seems that the time has come when they should be addressed seriously — somehow, somewhere.

Nobility and selflessness are wonderful if they are real, but are we now living in a state of illusion where things are not as they seem? A big question, and one which may engender much controversy, but is it not one to which we should now address ourselves, before well-meaning acceptance of questionable activities costs us even more than it already has?

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## Managing the State's Real Estate Holdings

The State of North Carolina is a major investor in real estate — both improved and unimproved. The departments and agencies of State government also occupy under lease substantial real estate holdings owned by others.

An analysis of the inventory of real estate owned

by the State and that which is occupied under lease strongly suggests the need for a formalized asset management program for State government. Obviously, the purpose of such program is to facilitate decisions regarding the most efficient use of such assets.



Ideally, a properly structured asset management program would: (1) facilitate planning for the present and future needs of the departments and agencies of State government; (2) identify utilization mismatches of current holdings, including excess holdings in certain instances for which there is no foreseeable need; and, (3) suggest a plan to make

the most cost-effective use of the State's current real estate resources, both leased and owned, and to also provide, in the most cost-effective manner, for the future facility needs of State government.

A good asset management program will, without question, strengthen the financial health of State government. It's a program long overdue.

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### Promoting North Carolina



**GOLF-000**

Today, the State annually sells license plates to automobile and motor vehicles owners numbering more than 6 million. The drivers of the licensed vehicles travel regularly across North Carolina and elsewhere for an estimated 72 million miles per year. Their license plates are seen and read by millions of people, resident and non-resident.

The question is, how might we use these automobile and motor vehicles license plates to advertise and promote North Carolina? Might we coordinate their practical and regulatory use with our efforts to advance North Carolina's economic and recreational resources?

Presently, the practice is to use an 8-digit combination of letters and numbers for license identification and registration purposes. Personalized license plates are also available with the payment of an additional annual fee.

Since there is no organized plan now in place for determining and assigning the letters and numbers on motor vehicle license plates, we are of the opinion that the State is overlooking an extremely valuable tool that could be used to promote North Carolina.

Our suggestion is to utilize the 8-digit lettering and numbering system similar to the present practice, except that the 2- and 3- and 4-digit letters would represent the name of an association or organization highly recognizable or familiar to most

drivers; like GOLF; like AARP, AGRI or FURN; an employer, like CP&L or IBM; a school or university, like NCSU; and, many, many, others. The point is, the State would make it possible for the motor vehicle owner, at his or her option, to select the license identification symbol which he or she might identify with personally, or one associated with his or her trade or business organization.

If the selected organization consented to the use of the lettering symbol — the symbol that would logically conform to the organization's New York stock exchange symbol (if applicable) — the organization would have first call on the licenses issued for its employees. The organization would assemble and forward the license renewal applications with proper remittance to the State's Division of Motor Vehicles for processing. A stated minimum number of applications (say, 100) would be necessary to participate.

The State's standard renewal license fee might or might not apply; or, the additional charge for personalized licenses might apply, with the revenues earmarked for a dedicated purpose.

The concept can be used to promote loyalty to North Carolina names and products. And, it can be endlessly creative, but always optional to the user.



## Retired People: Their Value to North Carolina

Retired people add much to the economy and quality of life in North Carolina; for it is said convincingly that:

- they have steady incomes; they are not subject to plant closings and layoffs; and, they make good steady customers for local businesses;
- they seldom have children in the public schools; but still, they pay property taxes on their dwellings and sales taxes on their purchases, the proceeds of which support the schools;
- the local police almost never have to lock them up;
- they are desirable, non-polluting people;
- they often do volunteer work for churches and the community, participate in fund drives, and maintain active involvement in civic clubs and other worthy causes;
- they include many from the military services;

and as young retirees, they bring an assortment of talents that can frequently provide manpower for local businesses;

- they include older retirees who continue to work, either full-time or part-time; and,
- they live in the mountains, in the cities, in the country, in the retirement communities, on the seashore, and in all parts of the State. You see, that is why it has been said that retired people add much to the quality of life and to the physical and monetary resources of North Carolina.

Should we dare ask what we can do to maintain and enhance their wellbeing in North Carolina? This question is deserving of the Governor's personal attention and his thoughtful consideration. The General Assembly would be receptive to a positive course of action.

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### Come On, Brainstorm a Little

Do you have an idea how State government can save time, money and manpower?

If you know of a situation or procedure which can be improved upon, draw up a proposal for your money and time-saving plan.

For State employees, cash awards are given for suggestions which provide monetary savings. For

the taxpaying private citizen, the benefit is in the form of an improved State government.

Share your ideas with the Governor or one of the elected State officials or with a member of the General Assembly. Your idea may be just the thing that is needed.

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### An Observation

Organizational reform — responsive and meaningful programs — improved management — stretching tax dollars — and the democratic process — are matters which have succeeded in State government in past years because so many people have been willing to engage in thoughtful debate about problems and about remedies. Managing the affairs of the State of North Carolina is deserving of genuine and open discussion — for it offers the promise of providing the scope of government the people want and the type of government the people are willing to pay for.

The democratic process suggests that we — that is, those of us who hold positions of public trust — remind ourselves from time to time that we are playing in a bigger ball field than the State Capital.

In this process we all have a vital stake as citizens of North Carolina, and a duty to continue to contribute to it as our individual abilities allow.

Truly, the public's business is always an open issue.

Our commitment continues — for we well know that the pages of history are turning.



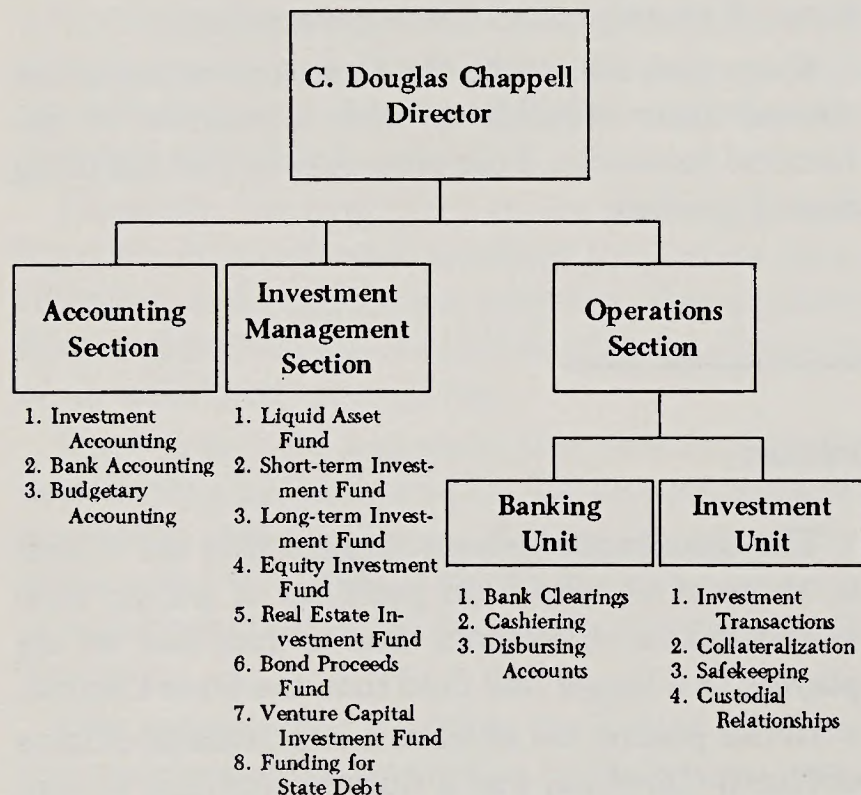
# Investment and Banking Division

The Investment and Banking Division is responsible for three of the State Treasurer's primary functions:

1. Acting as the State's Banker by receiving and disbursing State moneys.
2. Administering the State's Cash Management and Trust Fund Programs as both custodian and investment officer.
3. Arranging for the prompt payment of principal and interest on the State's general obligation debt as it matures.

These functions are both constitutional and statutory in origin.

## Table of Organization



## Operational Highlights

- Assets under management at June 30, 1989 amounted to \$18.1 billion, based on book value.
- Earnings on all funds under management exceeded \$1.5 billion for a net realized return of 9.17%.
- Assets of the Retirement Trust Funds were approximately \$14.8 billion at June 30, 1989 having produced a net realized return of 9.32%.
- Investment earnings for the retirement funds are greater than the combined employer and employee contributions.
- A recap of all investments under management shows some \$496 million invested internationally, \$1.733 billion invested with indirect impact for North Carolina, \$1.023 billion invested in-state and the remaining \$14.848 billion invested domestically, inside the United States, but outside of North Carolina.
- In an effort to strengthen the collateralization of public deposits, a number of amendments were made to 20 NCAC 7 (the portion of the Administrative Code governing the process). Securities are now valued at market as opposed to par value. Option 2 institutions are encouraged to maintain a 10% cushion (excess pledge).
- Over \$1 billion annually is now being remitted by Direct Deposit to over 100,000 current and retired employees, making State Government the largest user of Direct Deposit in the State.

## Investment Management

The book value of assets under management at June 30, 1989 amounted to \$18.1 billion. The assets generated a net realized rate of return of 9.17% and increased at the rate of \$5.8 million per work day during the fiscal year.

Assets of the four Retirement Systems form the greater part (some 82%) of the funds under management and total \$14.8 billion. Investment earnings for the retirement funds are greater than the combined employer and employee contributions. Earnings for the year ended June 30, 1989 amounted to \$1.3 billion and produced a net realized rate of return of 9.32%.



While the assets of the various trust funds continue to grow, the assets of the State's General and Highway Funds, a part of the Cash Management Program, decreased. When viewed in total, however, the assets under management continue to grow at a very rapid pace. In order to spread risk, the State Treasurer's investment staff makes investments in numerous financial assets as authorized by the North Carolina General Assembly. It is interesting to note that while there is always the suggestion to diversify, including international securities, there is also the suggestion to invest in-state. While the State Treasurer can not make in-state investments on a social or political basis, one may find the next few paragraphs of interest as they reflect how, as a fiduciary, funds are invested internationally, domestically and locally (in-state).

The Long-term Investment Fund, the assets of which belong to pension and other trust funds, with assets (based on book value) amounting to \$10.9 billion had international investments amounting to \$286 million at June 30, 1989. Investments with indirect investment connections for North Carolina amounted to \$1.451 billion, while there was some \$469 million in investments directly impacting our State. Such investments have been made without sacrificing yield (income).

The Equity Investment Fund had assets, which belong to the various retirement systems, of some \$3.9 billion, based on book value, at June 30, 1989. Of that amount \$210 million was in the international arena, \$257 million was in the area of indirect implications for our State, and some \$63 million was invested in North Carolina companies.

The Short-term Investment Fund with assets of \$3.55 billion at June 30, 1989 did not have any investments in the international sector. Investments with indirect impact on our State amounted to \$25 million while North Carolina financial institution balances, both time and demand, amounted to \$478 million. The General Fund, Highway Fund and other beneficiaries of this fund have received market rates of return on all investments. The demand portion of the deposits assure recipients of State warrants, of the availability of "good money" upon presentment for credit to their account and covers (on an analysis basis) the cost of banking services provided to State departments, agencies, institutions and universities across the State.

The Real Estate Investment Fund with assets of \$199 million at June 30, 1989, which also are a portion of the holdings of the retirement systems, are actually shares of beneficial interest in various trusts. The North Carolina component amounts to \$10 million.

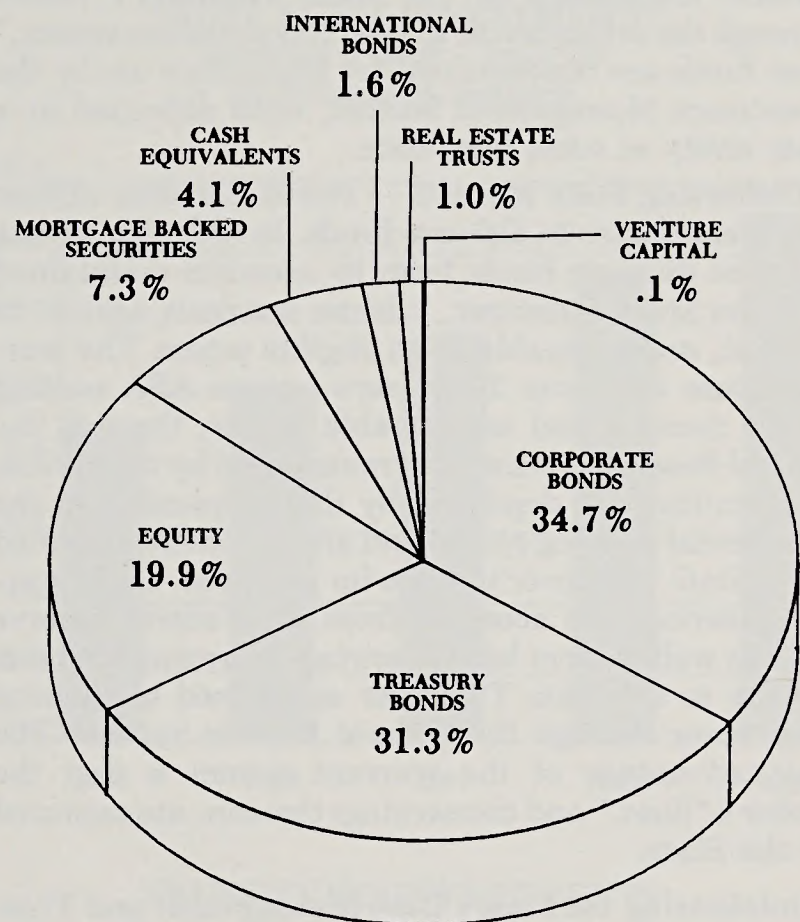
The Venture Capital Investment Fund with assets of \$8.3 million at June 30, 1989 reflects investments made of some of the funds belonging to the General and Highway Funds. Such investments are made by various general partners on behalf of the limited partners, or as authorized by the board of directors on behalf of stock holders. Of the total, some \$3 million is invested in North Carolina.

A brief recap shows \$496 million invested internationally, \$1.733 billion invested with indirect impact for North Carolina, \$1.023 billion invested in-state and the remaining \$14,848 billion invested domestically, inside the United States, but outside of North Carolina.

Fiscal year 1988-89 was another good year for our investment programs. We are grateful for the accomplishments of our associates, the guidance of the State Treasurer, the support of the General Assembly and the confidence of the taxpayers. With a spirit of cooperation we have every reason to believe the future is very bright for the investment programs.

Chart 1

# **TYPE OF INVESTMENTS OWNED BY FUNDS UNDER MANAGEMENT** At June 30



**Total Investments — \$17,687,881,581**



## The Basic Functions

### Acting as the State's Banker

The General Assembly of North Carolina has provided a centralized system for managing the flow of moneys collected and disbursed by all State departments, agencies, institutions, and universities. These various entities maintain accounts with the State Treasurer, similar to corporations maintaining accounts with commercial banks. This system assures that the State itself will be the prime beneficiary of the flow of funds through the commercial banking system in the course of conducting State business.

**Receiving State Moneys** — All revenues collected by a State entity on behalf of the State must be deposited either directly with the State Treasurer's Office or be deposited with a designated bank, to be credited to an account established in the State Treasurer's name. Through the utilization of a "cash concentration system," these funds are concentrated for immediate use by the Investment Management Section, until disbursed by a State entity at some later date.

**Disbursing State Moneys** — North Carolina utilizes a warrant system to disburse funds. In order for a State entity to disburse funds from its accounts maintained with the State Treasurer, it issues warrants against its account, made payable to an eligible payee. The warrants bear the State Treasurer's unique ABA routing transit number and are payable at par, through the Federal Reserve System. Warrants issued by the various State entities are deposited by the recipients into the commercial banking system and are ultimately presented to the State Treasurer's Office for payment. Daily warrant clearings are accepted from the Federal Reserve Bank as well as from banks desiring to present warrants directly to the State Treasurer as opposed to clearing these items through the Federal Reserve System. The main advantage of the warrant system is that the banker's "float," and the earnings thereon, are captured for the State.

### Administering the State's Cash Management and Trust Fund Investment Programs

The Treasurer is the State's chief investment officer. As such, he is directed to "establish, maintain, administer, manage and operate" investment programs, pursuant to the applicable statutes, for all funds on deposit. In so doing, the State Treasurer "shall have full power as a fiduciary" and shall manage the investment programs so that the assets "may be readily converted into cash as needed."

**General Investment Objective** — The objective for all investment programs is to achieve the highest yield consistent with safety of principal. Prudence in discharging this fiduciary obligation requires that all investments be reviewed continuously, so that opportunities in the secondary markets to improve the quality and/or the projected yield are not overlooked.

**Operating Policy** — In conducting the activities of the Investment and Banking Division, it is the Treasurer's policy to do business within the State of North Carolina, whenever it can be done at no disadvantage to the Cash Management or the Trust Fund Programs. As an example, whenever either program participates as a buyer in an underwriting of securities, fixed-income or equity, purchases are allocated among the known in-state participating underwriters.

### The Cash Management Program

The Division computes daily the excess cash which is available for investment, a figure derived from the ending balances of the previous day, plus or minus the net difference between the certified deposits and the disbursing warrants for the current day. This excess cash in the State Treasurer's central clearing accounts is then invested in short-term securities as authorized by statute.

Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary considerations in making investments are safety and liquidity; the secondary consideration is income. The invested assets of the Cash Management Program fluctuated between \$3.2 billion and \$3.8 billion during the fiscal year. Revenues from the Cash Management Program were approximately \$300 million in the fiscal year ended June 30, 1989. Of this total, \$170 million was earned for the General and Highway Funds. This brings the total investment earnings for these funds to \$2.23 billion since the inception of the Cash Management Program in 1949. Table 4 shows the earnings for the General Fund and Highway Fund since 1949.

As part of the Cash Management Program, the Treasurer may invest in Certificates of Deposit and Saving Certificates issued by North Carolina banks and savings and loan associations. As of June 30, 1989, \$426 million was invested in these North Carolina financial institutions.

The Treasurer sets the interest rate, which by State law may not be less than the return available in the market on U.S. Government and/or Agency securities of comparable maturity. Current practice is to purchase such certificates with a term of six months, and to schedule maturities weekly, in order to afford a measure of liquidity. Chart 2 indicates the fluctuation in interest rates set for Certificates of Deposit and Saving Certificates during the fiscal year.



Chart 2

**INTEREST RATES  
ON CERTIFICATES OF DEPOSITS  
AND SAVING CERTIFICATES  
July 1, 1988 - June 30, 1989**

Rate (%)	Effective Date	Rate (%)	Effective Date
7 3/4	06-22-88	9 3/8	02-15-89
7 5/8	07-13-88	9 1/2	02-22-89
8	07-20-88	9 7/8	03-01-89
8 1/8	07-27-88	10	03-15-89
8 1/4	08-10-88	10 1/4	03-22-89
8 1/2	08-17-88	10 3/8	03-29-89
8 3/8	09-14-88	10 1/4	04-12-89
8 1/4	09-21-88	10 1/8	04-19-89
8 3/8	09-28-88	10	04-26-89
8 1/2	11-16-88	9 3/4	05-10-89
8 7/8	11-23-88	9 5/8	05-17-89
9	11-30-88	9 3/8	05-24-89
9 1/8	12-14-88	9 1/8	06-07-89
9 1/4	12-21-88	9	06-14-89

\*Certificate rates ranged from 7 3/4% to 10 3/8%.

**Certificates of Deposit  
and Saving Certificates**

	June 30, 1989	June 30, 1988
Certificates Renewed	342	354
New Certificates Issued	38	62
Certificates Paid Off	66	37
Face Value of Certificates	\$426,000,000	\$428,000,000

**The Trust Fund Investment Program**

The Trust Funds are composed primarily of the holdings of four Retirement Systems, the two largest being the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. More than 98% of all the Trust Fund Assets under management belong to the Retirement Systems.

The Retirement Systems' investment integrity is held inviolate by Article V, Section 6(2) of the North Carolina Constitution, which provides:

"Neither the General Assembly nor any public officer, employee, or agency shall use or authorize to be used any part of the funds of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System for any purpose other than retirement system benefits and purposes, administrative expenses, and refunds; except that retirement system funds may be invested as authorized by law, subject to the investment limitation that the funds of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System shall not be applied, diverted, loaned to, or used by the State, any State agency, State officer, public officer, or public employee."

In addition to the Trust Funds of the Retirement Systems, numerous other Trust Funds are managed, including the North Carolina Teachers' and State Employees' Benefit Trust, the North Carolina Employee Disability Fund, the State Treasurer's Escheat Fund, various Educational Trust Funds, the State Property Fire Insurance Fund, the Workmen's Compensation Fund, the Insured Student Loan Program and the Wildlife Endowment Fund.

Trust Fund assets under management reached a total of \$15.1 billion on June 30, 1989. Approximately \$14.8 billion of this amount belongs to the Retirement Systems. As reported earlier in this document the net realized return on the Retirement Systems' assets was 9.32%.

Charts 3 and 4 show the Invested Funds and the Realized Cash Rate of Return since 1985.

Chart 3

**TRUST FUND INVESTMENTS  
Invested Funds - June 30  
(\$ Billions of Dollars)**

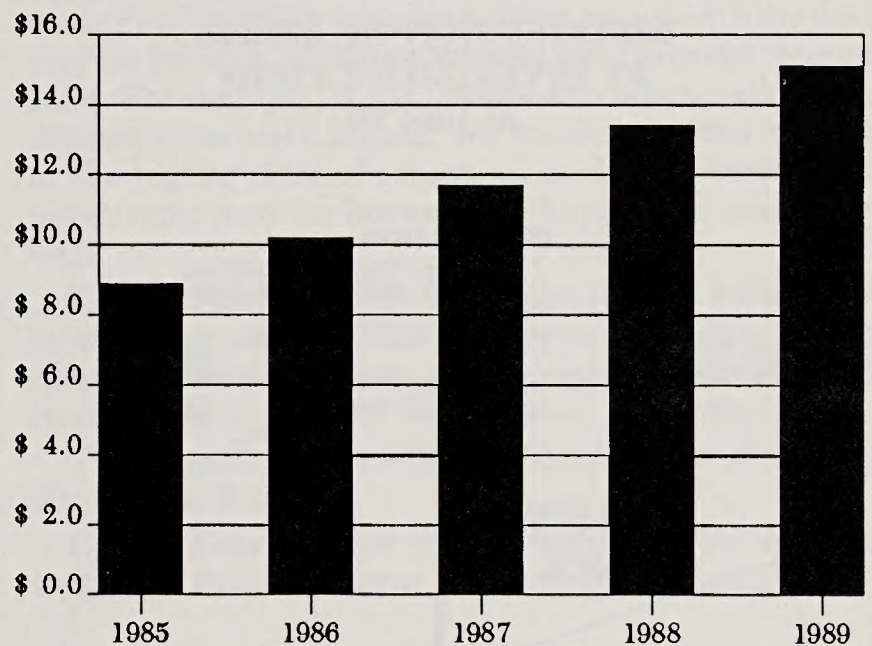
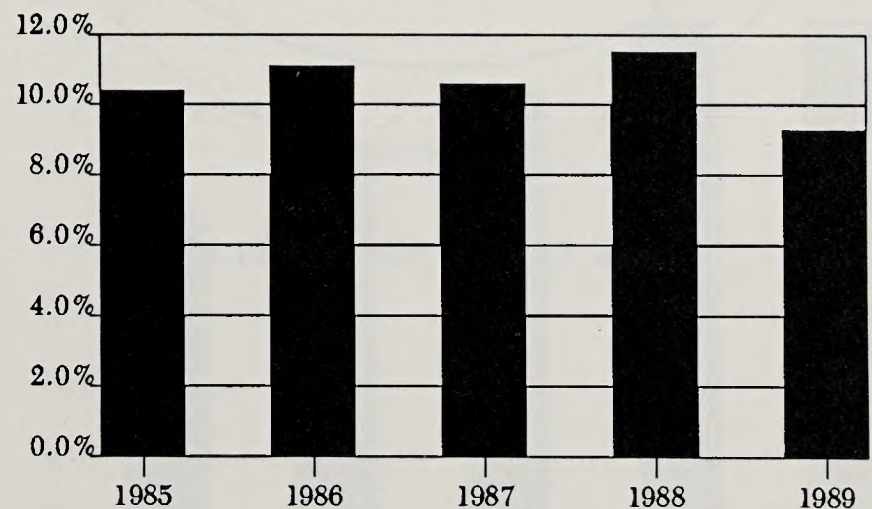


Chart 4

**TRUST FUND INVESTMENTS  
Realized Rate of Return - June 30  
(Percentage)**





The Investment objectives of both the Cash Management and the Trust Fund programs are achieved through participation in one or more investment funds or "pools" established by the Treasurer as authorized by State law. These are:

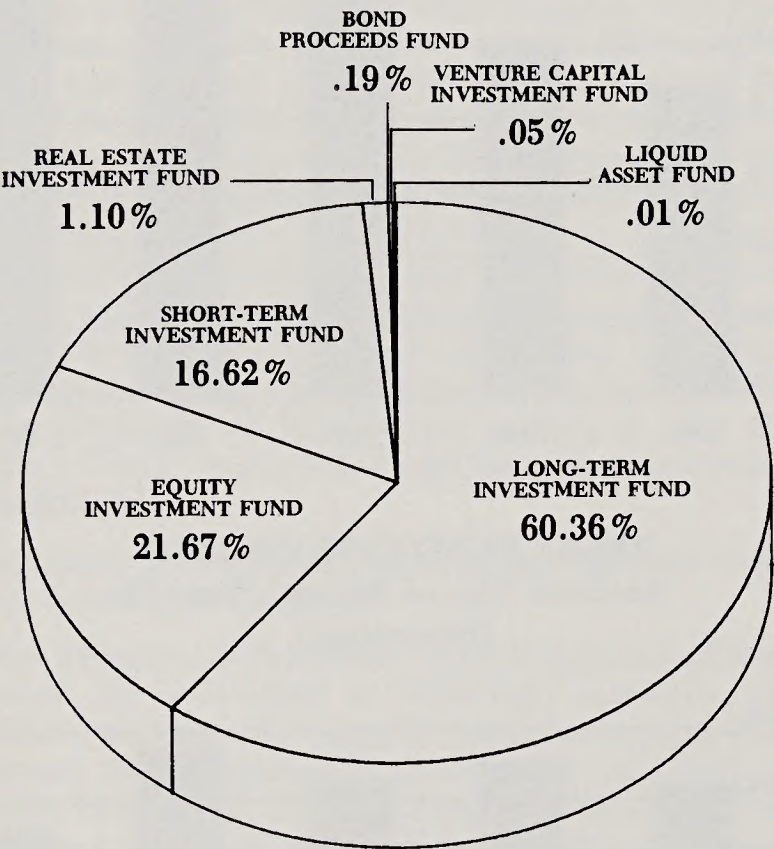
- The Liquid Asset Fund
- The Short-term Investment Fund
- The Long-term Investment Fund
- The Equity Investment Fund
- The Real Estate Investment Fund
- The Bond Proceeds Fund
- The Venture Capital Investment Fund

The Trust Fund Investment Program participates in the Investment pools, in accordance with the statutory authority and needs of the individual funds. The cost of the investment management function is shared equitably, in the ratio of each fund's participation.

Charts 5 and 6 illustrate the Distribution of Assets by Investment Fund and Distribution of Investments by Participants.

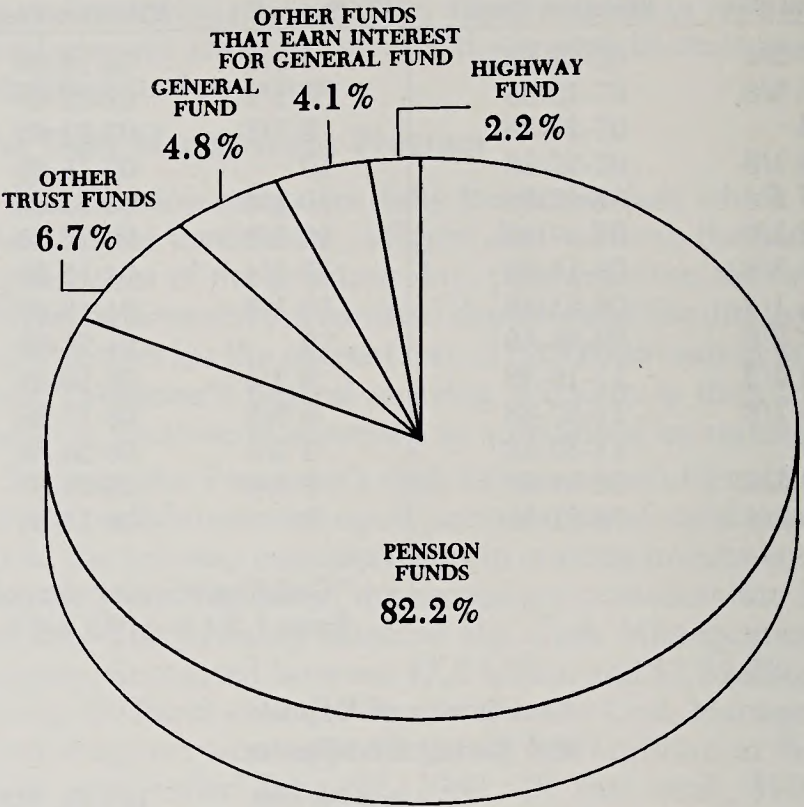
Chart 5

### DISTRIBUTION OF ASSETS BY INVESTMENT FUND At June 30



Total Assets — \$18,076,054,944

### DISTRIBUTION OF INVESTMENTS BY PARTICIPANTS At June 30



#### Investment Activity

**Liquid Asset Fund** — The State Treasurer maintains this fund (established in 1982) as an investment alternative available to local public authorities, local governmental units and local ABC boards of the State having custody of any funds not required by law to be deposited with and invested by the State Treasurer.

**Objective:** To provide a daily income fund with maximum safety and liquidity for those public entities listed in G.S. 147-69.3(b) which are permitted to voluntarily deposit funds with the State Treasurer for investment.

**Method:** Investment vehicles authorized in G.S. 147-69.1 are employed to invest the cash of the fund in such a manner as to be able to meet any withdrawal demand on request.

The 1988-89 and 1987-88 fiscal years are compared below:

	June 30, 1989	June 30, 1988
Net Assets	\$ 2.1 million	\$ 82.5 million
Net Realized Rate of Return	8.35%	6.78%
Earnings For Year	\$335,464	\$184,790

The projected return for the Liquid Asset Fund for the fiscal year 1988-89 was 7.95%. The actual realized return was 8.35%.

The projected return for the fiscal year ending June 30, 1990 is 8.35%.



**Short-term Investment Fund** — The Cash Management Program (established in 1949), because of its primary need for safety and liquidity, is totally invested in the Short-term Investment Fund. Other participants include the cash balances of the Liquid Asset, Long-term, Equity, Real Estate and Venture Capital Investment Funds, and some voluntarily deposited funds belonging to various boards, commissions, community colleges and school administrative units. (The cash balances of the Bond Proceeds Fund are invested separately because of federal requirements.) Thus, all cash in any fund under the Treasurer's management is always fully invested.

**Objective:** To provide safety, liquidity and income on average monthly balances for the General Fund and Highway Fund, and for other participants permitted or required by law to deposit funds with the State Treasurer for investment.

**Method:** Investment vehicles authorized in G.S. 147-69.1 are employed to invest all cash in the fund in excess of the amount required to meet current needs, in such manner as to be "readily convertible into cash" as required by law.

The 1988-89 and 1987-88 fiscal years are compared below:

	June 30, 1989	June 30, 1988
<b>Participants</b>		
General Fund	\$ 858,748,899	\$ 1,079,821,713
Highway Fund	389,791,764	447,537,460
Other	2,282,412,567	2,055,837,309
Total Net Assets	\$ 3,530,953,230	\$ 3,583,196,482
Net Realized Rate of Return	8.60%	9.05%

	Net Earnings
<b>Participants</b>	
General Fund	\$ 139,553,252
Highway Fund	30,558,023
Retirement Funds	11,279,653
Various Special and Trust Funds	119,818,943
Total Net Earnings	\$ 301,209,871

	Activity
Number of Repurchase Agreements Executed	696
Par Value of Repurchase Agreement	\$23,688,475,600
Number of Securities Maturing, Purchased or Exchanged	323
Par Value of Securities Maturing, Purchased or Exchanged	\$ 7,550,700,000
Number of Exchanges	96

(Certificate of Deposit activity shown as part of Chart 2.)

Listed below is a breakdown of investments in the Short-term Investment Fund as of June 30, 1989:

	Par Value	Percentage of Portfolio	Projected Yield	Average Maturity
U.S. Treasury Securities	\$2,498,000,000	70.9%	8.63%	2.61
U.S. Agency Securities	240,000,000	6.8	9.94	1.37
Corporate Notes	97,000,000	2.8	9.93	1.46
Repurchase Agreements	264,266,000	7.5	9.38	.01
Certificates of Deposit	338,486,000	9.5	9.69	.21
Saving Certificates	87,600,000	2.5	9.54	.27
	\$3,525,352,000	100%	8.94%	2.03 Years

The projected return for the Short-term Investment Fund for the fiscal year 1988-89 was 8.50%. The actual realized return was 8.60%.

There are two factors that impact investment returns. They are the balances available for investment and the level of interest rates, neither of which we control. Additionally, of course, factors that affect the return for the Short-term Investment Fund in which the General and Highway Funds are participants also include the following:

1) The investments which the Short-term Investment Fund portfolio may be holding on a particular date may be earning at different levels from current interest rates. For example, if our investments were made when interest rates were higher, we would continue to earn at the higher rates of return, even though current interest rates may be lower. This happens in reverse as well.

2) The current levels of interest rates at which new investments can be made fluctuate according to the shape of the yield curve and the spreads between different types of eligible securities.

The projected return for the fiscal year ending June 30, 1990 is 8.45%.

Charts 7 and 8 show the net assets and the realized income of the Short-term Investment Fund since 1985.

Chart 7

**SHORT-TERM INVESTMENT FUND**  
Net Assets as of June 30  
(\$ In Billions)

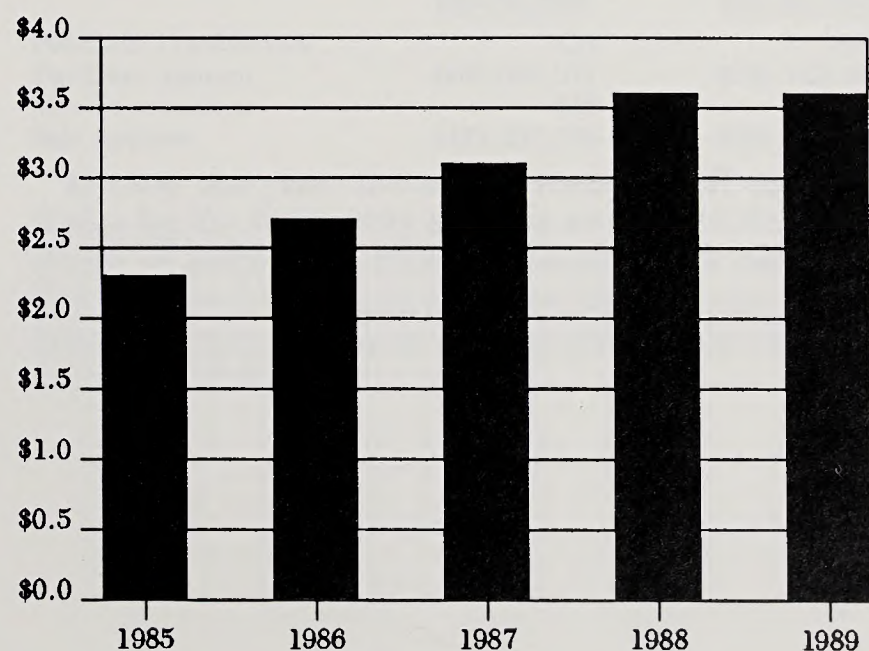
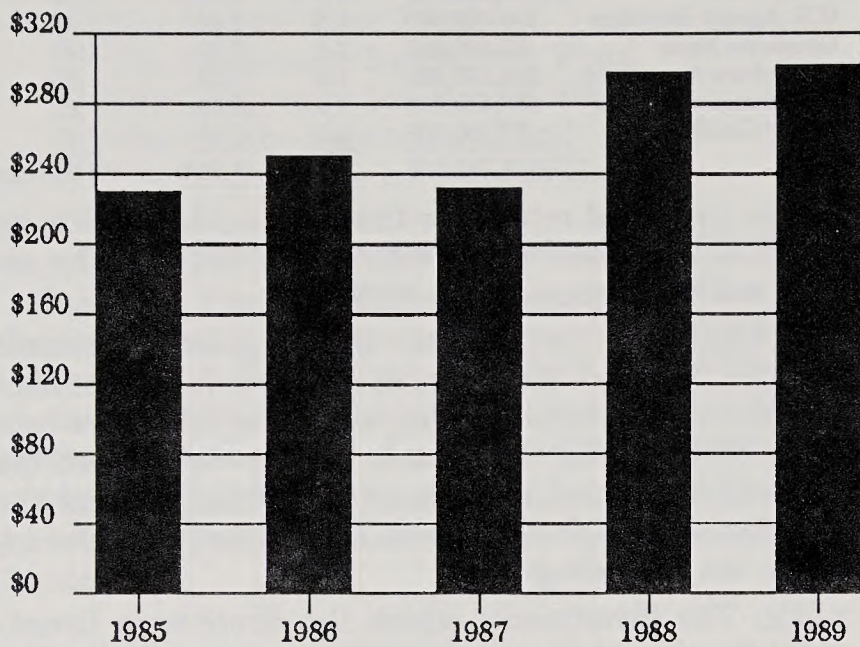




Chart 8

**SHORT-TERM INVESTMENT FUND**  
**Realized Income as of June 30**  
 (\$ In Millions)



**Long-term Investment Fund** — The Investment Program represented by this fund was started in 1941 on behalf of pension and other trust funds and is now producing a realized return of 9.68%.

**Objective:** To provide the maximum safe return on the fixed-income investments of the North Carolina Retirement systems, and other participants required or permitted to deposit funds with the State Treasurer for investment, in conformity with the concepts of fiduciary responsibility and prudent investment management.

**Method:** Investment vehicles authorized in G.S. 147-69.2 are employed to invest the cash of the fund, and to exchange the assets of the fund as the market permits in order to improve the income and/or quality of the fund.

The 1988-89 and 1987-88 fiscal years are compared below:

	June 30, 1989	June 30, 1988
Net Assets	\$10,854,814,718	\$ 9,720,040,874
Net Realized Rate of Return	9.68 %	9.66 %

Participants	Net Earnings
Retirement Funds	\$ 982,605,736
Various Special and Trust Funds	13,303,108
Total Net Earnings Distributed	\$ 995,908,844

Activity	June 30, 1989	June 30, 1988
Par Value, Purchases	\$ 1,097,287,918	\$ 1,036,152,382
Number of Purchases	166	187
Par Value, Sales	\$ 0	\$ 131,179,000
Number of Sales	0	14
Par Value, Bond Exchange Transactions	\$ 9,195,990,000	\$ 6,018,266,103
Number of Exchange Proposals Executed	347	195
Par Value, Bond Exchange Proposals	\$44,656,676,000	\$24,729,026,103
Number of Exchange Proposals Analyzed	1,620	685

The quality of the portfolio remains extremely high, as shown below:

Average Maturity	June 30, 1989	June 30, 1988
AAA	76 %	71 %
AA	18	23
A	1	6
BA*	5	0
	100 %	100 %
Average Maturity	21.7 years	23.7 years

\*Securities purchased when rated A or higher. Downgraded as a result of leveraged-buy-out activity.

Listed below is a description of investments in the Long-term Investment Fund as of June 30, 1989:

	Par Value	Percentage of Portfolio	Projected Yield	Average Maturity
US Treasury Securities	\$ 3,230,542,000	28.5 %	9.99 %	13.8
US Agency-GNMA	1,415,713,679	12.5	10.81	26.7
Corporate Bonds	6,340,698,207	55.9	9.67	24.8
US Agency Insured/Guaranteed	25,774,564	.2	9.58	18.2
International Securities	321,995,000	2.8	10.69	18.3
Long-term CD's and Saving Certificates	11,150,000	.1	11.96	5.6
	\$11,345,873,450	100 %	9.93 %	21.7 Years

The projected return for the Long-term Investment Fund for the fiscal year 1988-89 was 9.50%. The actual realized return was 9.68%.

The projected return for the fiscal year ending June 30, 1990 is 9.45%, while the long-term actuarial requirement is 7.50%.



Charts 9 and 10 show the net assets and the realized income of the Long-term Investment Fund since 1985.

Chart 9

### LONG-TERM INVESTMENT FUND

Net Assets as of June 30

(\$ In Billions)

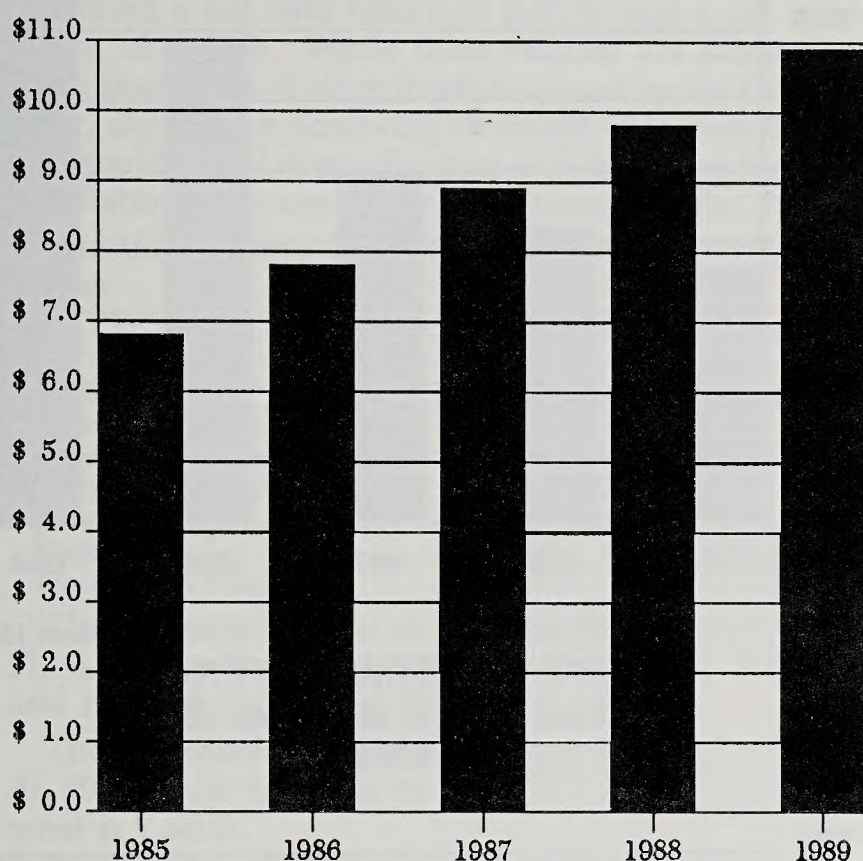
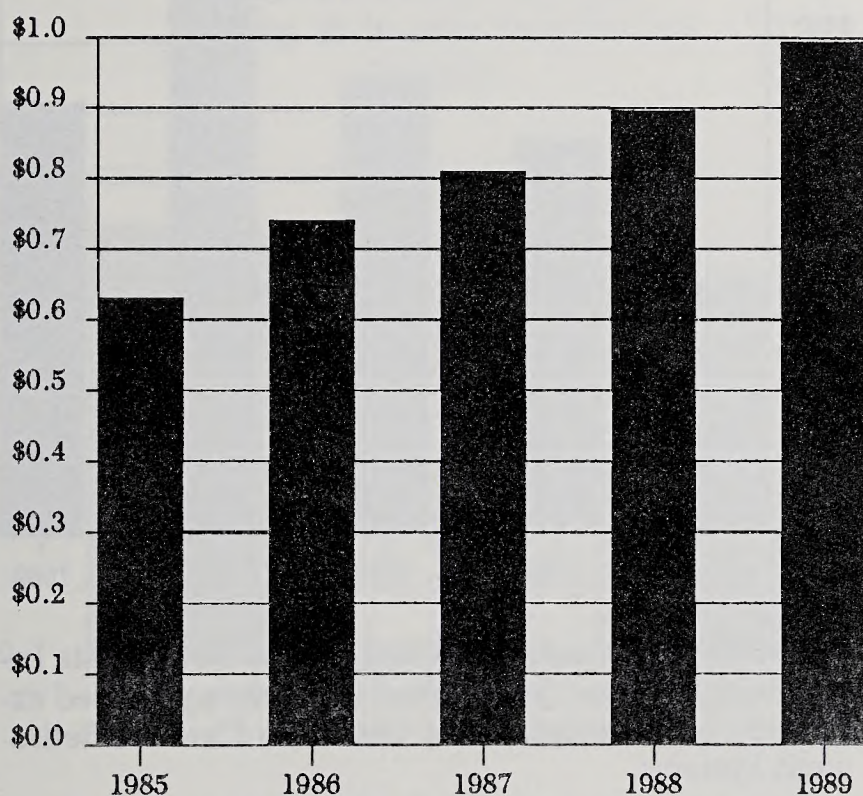


Chart 10

### LONG-TERM INVESTMENT FUND

Realized Income as of June 30

(\$ In Billions)



**Equity Investment Fund** — The Equity Investment Program (established in 1961) is provided solely for participation by the North Carolina Retirement Systems.

#### Overall

**Objective:** To provide long-term growth of capital while observing the requirements of applicable State law and the principles of prudent investment management. The Equity Investment Fund is expected to generate a total return which will exceed that of the Standard and Poor's composite Stock Index (S&P 500) on a trailing 36 month basis.

**Method:** Each portfolio within the Fund will have specific objectives and an appropriate benchmark against which its performance will be compared. To achieve the Overall Investment Objective, the Fund invests its assets in a portfolio of common stocks and convertible debentures and in shares of beneficial interest in various trusts using a diversified group of investment advisors and managers as authorized in G.S. 147-69.2 and G.S. 147-69.3.

The 1988-89 and 1987-88 fiscal years are compared below:

	June 30, 1989	June 30, 1988
Net Assets	\$3,892,816,193	\$3,410,689,508
Net Realized Return	8.51%	17.21%
Net Total Return	18.93%	(7.28%)

The Equity Investment Fund accounted for 26.2% of the total Retirement Systems' Investments at June 30, 1989. The fund utilizes five equity advisors who make recommendations on purchases and sales with execution of the trades handled by our in-house staff. The fund also retains three equity managers with full discretion concerning equity selection and execution.

The Equity Investment Fund activity (transactions by our staff) for fiscal years 1988-89 and 1987-88 fiscal years are compared below:

	June 30, 1989	June 30, 1988
Purchase Transactions	431	651
Purchase Amount	\$499,565,071	\$734,123,386
Sale Transactions	335	295
Sale Amount	\$431,207,230	\$360,317,676

During the year, the equity trading staff executed trades for the five equity advisors totaling 17.6 million shares of stock. Commissions averaged 4.8 cents per share, versus 4.6 cents per share for the prior year. Commissions were paid to 34 broker/dealer firms (19 with in-state offices).



Option activity for fiscal years 1988-89 and 1987-88 are compared below:

	June 30, 1989	June 30, 1988
Opening Transactions	70	50
Amount	\$ 793,932	\$1,211,294
Closing Transactions	67	40
(including expirations and exercises)		
Amount	\$1,425,326	\$1,817,702

The Covered-Call Option Writing Program generated net collected premiums of \$1.4 million. Net premiums of \$25.1 million have been generated by the Covered-Call Option Writing Program since its inception on March 1, 1980. The five equity advisors write and execute covered-calls, using the Division's trading staff. Premiums generated by the managers on Covered-Call Options are accounted for separately. Net profit for the year resulted in earnings of \$851 thousand. The difference between the collected premiums and the earnings from the Option Writing Program is attributed to an accounting policy which treats premiums written on options that are subsequently exercised as capital gains, and which does not recognize revenue for options which have not expired.

The Equity Investment Fund generated a net realized return of 8.51% and a net total return of 18.9% for the fiscal year. The five equity advisors generated net capital gains of \$109 million during the fiscal year, while the outside equity managers generated net capital gains of \$17 million.

The following break down provides insight into the composition of the Equity Investment fund at June 30, 1989:

Type of Equity	Percent of Equity Investment Fund
Large Capitalization Domestic Stocks	82.7%
Small Capitalization Stocks	1.6
Emerging Growth Stocks	.5
International Stocks	5.4
Cash	9.8
	100%

The projected return for the Equity Investment Fund for the fiscal year 1988-89 was 7.70%. The actual realized return was 8.51%.

The projected return for the fiscal year ending June 30, 1990 is 8.25%, while the long-term actuarial requirement is 7.50%.

Charts 11 and 12 show the net assets and realized income of the Equity Investment Fund.

Chart 11

### EQUITY INVESTMENT FUND Net Assets At June 30 (\$ In Billions)

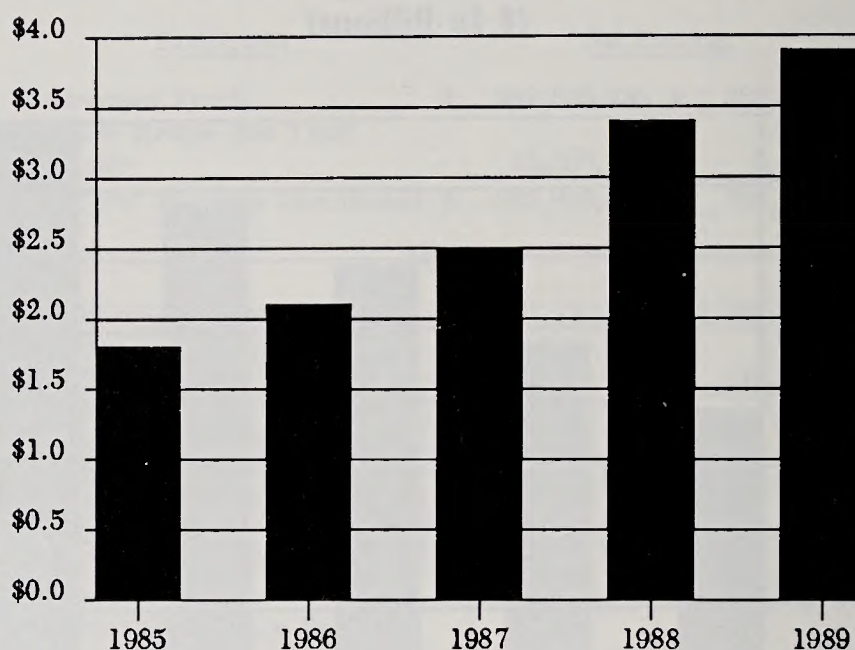
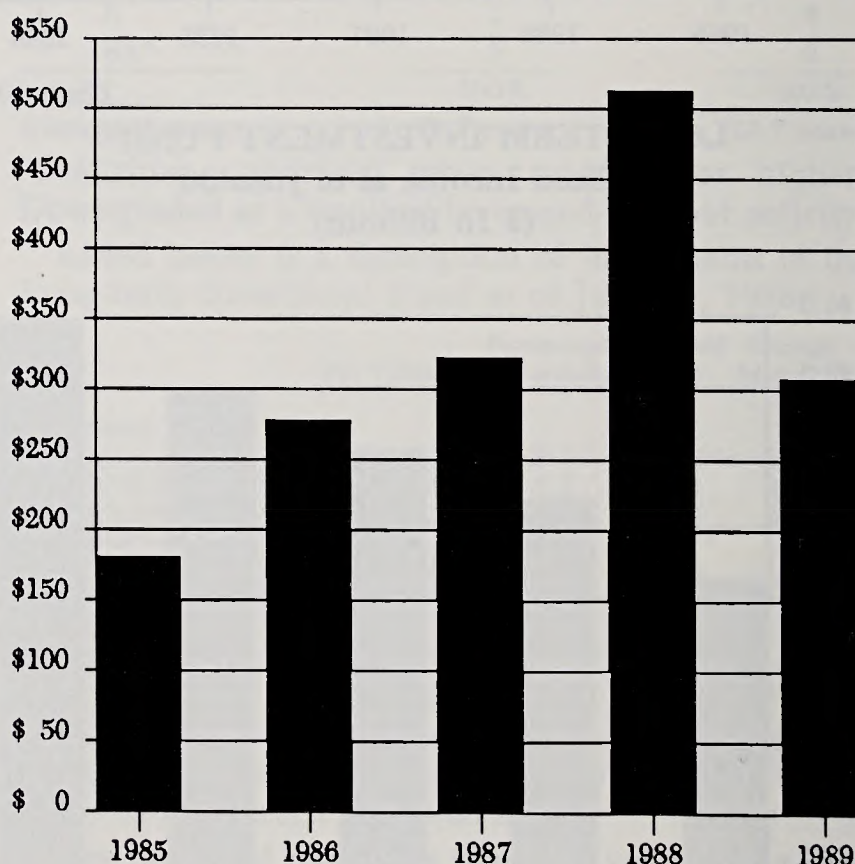


Chart 12

### EQUITY INVESTMENT FUND Realized Income as of June 30 (\$ In Millions)



**Real Estate Investment Fund** — The Real Estate Investment Program (established in 1984) is provided exclusively for participation by the North Carolina Retirement Systems.

**Objective:** To provide additional diversification, while serving as an inflation hedge generating a relatively stable flow of current income for the North Carolina Retirement Systems.



**Method:** Investment vehicles authorized in G.S. 147-69.2(b)(7) are employed to invest the cash of the fund in shares of beneficial interest in real estate.

At June 30, 1989, the fund's book value stood at \$199.5 million, a 10.68% increase over the book value recorded at June 30, 1988. For the fiscal year, the fund generated a net cash return of 6.07% and a net total return of 4.93%. While these returns are somewhat lower than those of other funds managed by the Department, the fund is achieving its stated objectives by offering additional diversification and exceeding the rate of inflation as measured by the Consumer Price Index.

The 1988-89 and 1987-88 fiscal years are compared below:

	June 30, 1989	June 30, 1988
Net Assets	\$199,475,554	\$180,228,413
Net Realized Return		
Fiscal Year	6.07%	6.33%
Inception to Date	7.48%	7.68%
Net Total Return		
Fiscal Year	4.93%	7.27%
Inception to Date	8.24%	9.03%

The projected return of the Real Estate Investment Fund for the fiscal year 1988-89 was 6.10%. The actual realized return was 6.07%.

The projected return for the fiscal year ending June 30, 1990 is 6.00%, while the long-term actuarial requirement is 7.50%.

Charts 13 and 14 show the Real Estate Fund's performance against the Consumer Price Index and the various property types that comprise the make-up of the fund.

**REAL ESTATE INVESTMENTS**  
By Property Type

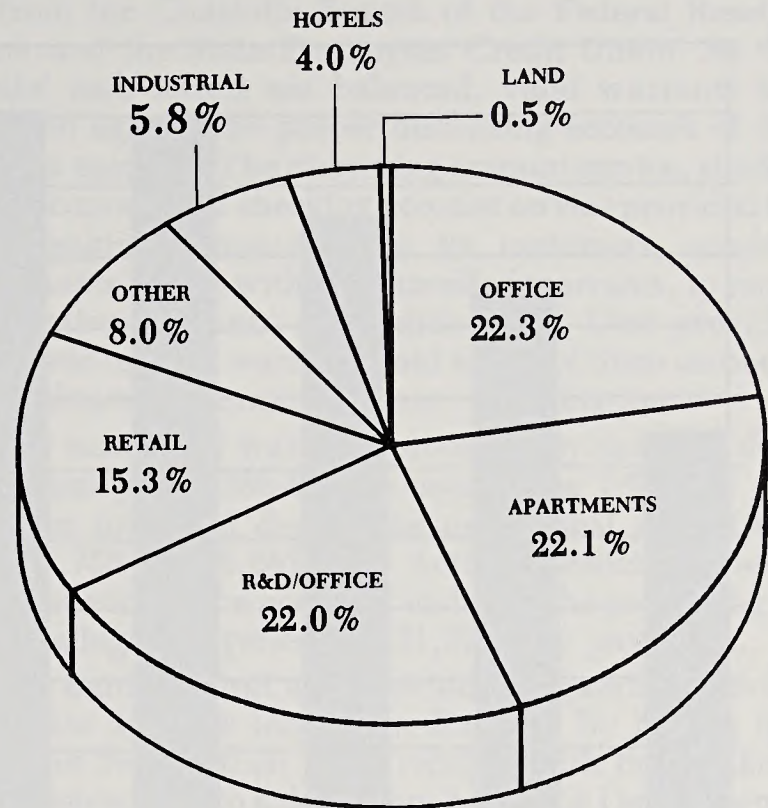
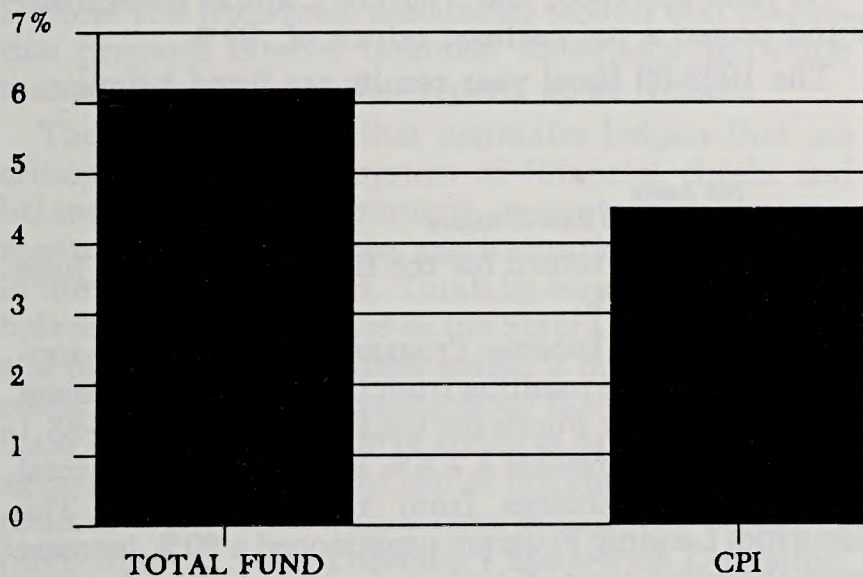


Chart 14

**TOTAL FUND VS. CPI**  
Trailing 36 Months Total Return  
(Percent)

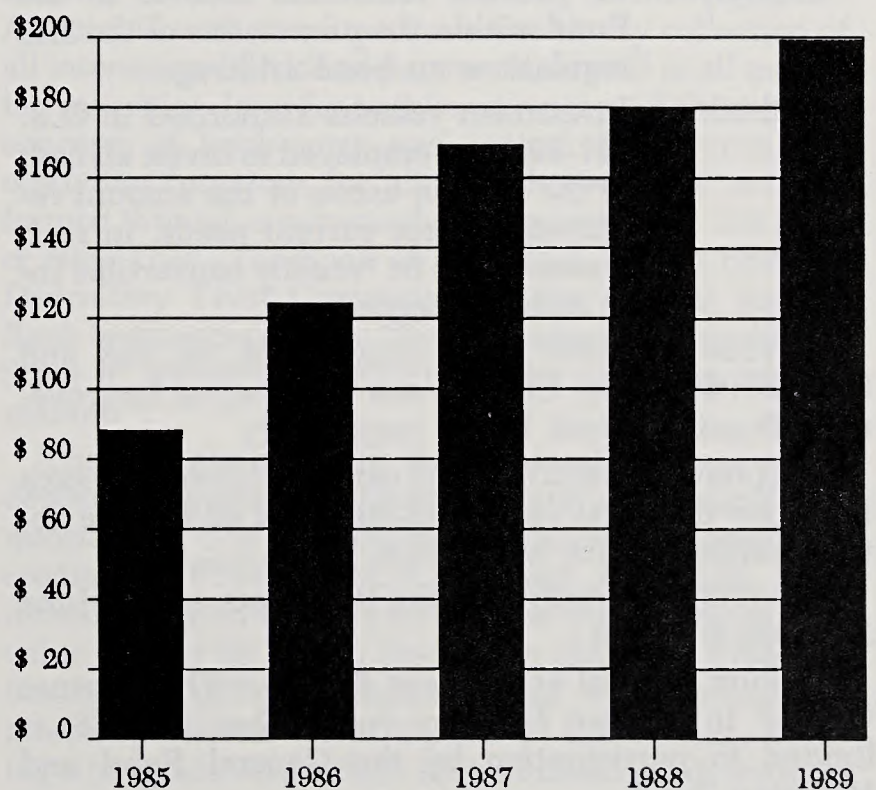
Chart 13



Charts 15 and 16 show the net assets and realized income of the Real Estate Investment Fund.

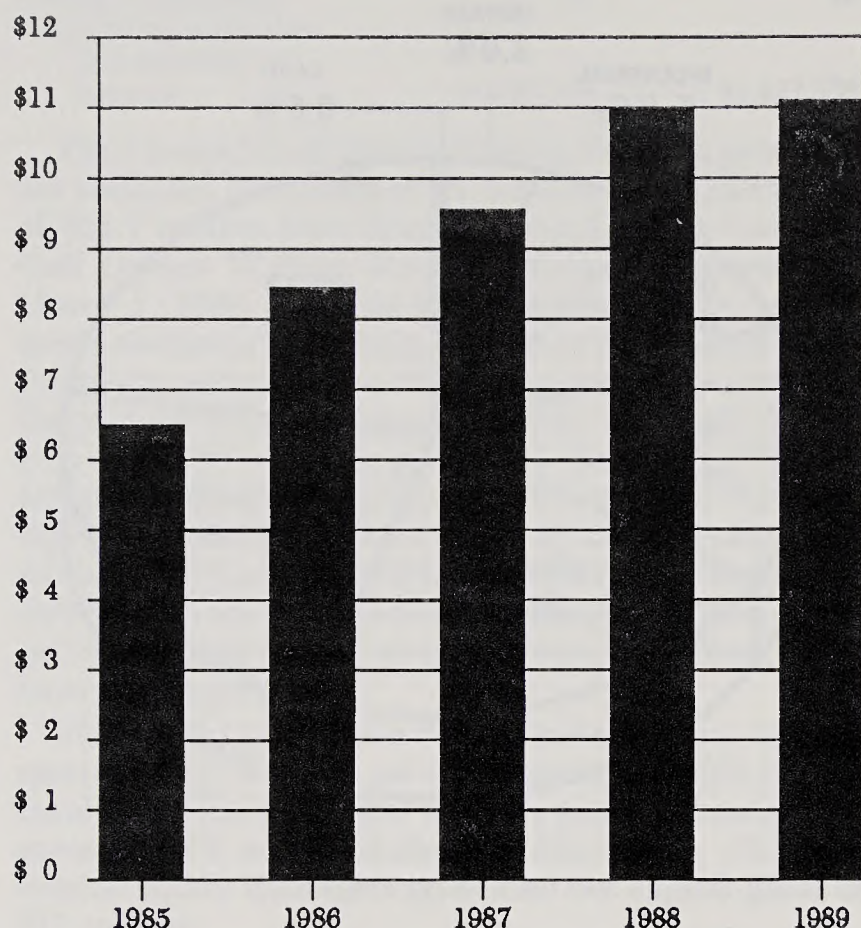
**REAL ESTATE INVESTMENT FUND**  
Net Assets at June 30  
(\$ In Millions)

Chart 15





**REAL ESTATE INVESTMENT FUND**  
**Realized Income As of June 30**  
 (\$ In Millions)



**Bond Proceeds Fund** — The Clean Water Bond Proceeds Fund was established June 23, 1987 in order to segregate funds of the Clean Water Bonds, Series 1987. This was done in order to comply with IRS regulations on bond arbitrage. The Capital Improvement Bond Proceeds Fund was established May 23, 1989 in order to segregate funds of the Capital Improvement Bonds, Series 1989.

**Objective:** To provide maximum income to the Fund within the parameters of the IRS regulations on bond arbitrage.

**Method:** Investment vehicles authorized in G.S. 147-69.1 are employed to invest all cash in the fund in excess of the amount required to meet current needs, in such manner as to be "readily convertible into cash" as needed.

At June 30, 1989 assets totaled \$20,391,928 and \$13,525,046 for the Clean Water and Capital Improvement Bond Proceeds Funds respectively.

The projected return for the combined Bond Proceeds Fund for the fiscal year 1988-89 was 7.65%. The actual realized return was 8.62%.

The projected return for the fiscal year ending June 30, 1990 is 8.30%.

**Venture Capital Investment Fund** — The Venture Capital Investment Program (established in 1988) is limited to participation by the General Fund and Highway Fund.

**Objective:** To provide, over a period of time (seven to ten years), a source of potentially high realized income. The risk being tempered by diversification in industry type, stage of corporate development and location.

**Method:** General Statute 147-69.1(c)(6) authorizes the purchase of obligations or securities of The North Carolina Enterprise Corporation; provided that the investment may not exceed twenty million dollars (\$20,000,000) and that the investment be made solely from the General and the Highway Funds. General Statute 147-69.1(f) authorizes the use of limited partnerships which may be employed to invest up to three percent (3%) of the cash balances (at the time of commitment) of the State's General and Highway Funds as shown on the records of the State Treasurer.

The Venture Capital Investment Fund strategy is to establish and maintain a broadly diversified venture capital portfolio comprised of investments that provide diversification by industry classification, state of corporate development and geographic location. Investments in venture capital are monitored over a long term horizon, because of the amount of time and development necessary to grow and expand relatively new, small companies. This long term investment philosophy dictates that cash returns in the early stages of the investment cycle will be minimal. Additionally, it is anticipated that losses will be realized in the early stages of investing as certain venture capital companies do not meet projections. However, successful investments in the portfolio should generate returns that prove to be quite satisfactory in relation to the risk taken and the returns generated by more traditional investments.

At June 30, 1989, the Venture Capital Investment Fund posted a net realized return of .99%.

The 1988-89 fiscal year results are listed below:

	June 30, 1989
Net Assets	\$8,367,111
Net Realized Rate of Return	.99%

The projected return for the fiscal year ending June 30, 1990 is 3.75%.

**Supplemental Income Program** — Additional supplemental income resulting from the active management of the Investment Funds for the fiscal year totaled \$5.1 million. This represents a 7.8% increase from the total supplemental earnings from the prior year. The Securities Lending Program experienced a 20% increase over the prior year. Earnings from securities lending since inception of the program reached \$30 million during the year. The Supplemental Income Program generated income considerably in excess of the entire operating budget of the Investment and Banking Division, which was \$2,758,754.



Source of Earnings	Investment Funds			
	Short-term	Long-term	Equity	Totals
Securities Lending	\$1,714,716	\$2,228,969	\$ 58,161	\$4,001,846
Option Writing	-0-	-0-	851,815	851,815
Fair Balance Earnings	(17,308)	86,105	923	69,720
Dividend Re-investment	-0-	-0-	99,054	99,054
Miscellaneous	-0-	-0-	93,875	93,875
Grand Totals	\$1,697,408	\$2,315,074	\$1,103,828	\$5,116,310

### Payment of the State's Debt

As the State's chief financial officer, the Treasurer is charged with the responsibility of making timely payment of principal and interest on North Carolina's General Obligation debt, a function vital to the maintenance of our "AAA" rating.

The Investment Management and Operations Sections arrange to have "readily available funds" in the hands of the paying-agent banks on due dates. Complete information as to amounts of principal and interest due, by issue, is furnished by the State and Local Government Finance Division.

Through these arrangements, the bondholders have access to their money as promised; meanwhile, the funds are invested for the benefit of the State until the last possible moment.

### Other Activities

**Accounting** — The Accounting Section of the Division performs the accounting function for the Treasurer as it relates to his investment and banking responsibilities. The accounting for the transactions of each investment fund is somewhat similar to the accounting for mutual funds in the private industry sector. Detailed participant accounting ledgers are maintained for each investment fund so that each participant's units of ownership can be accounted for and earnings can be distributed according to the rules and regulations governing each fund. A general ledger, subsidiary ledgers and journals for each investment fund are maintained by the Section. It is from these accounting records that the Section prepares interim financial statements and other management information reports upon request.

The Accounting Section maintains ledgers that are critical to the State's system of financial checks and balances. The appropriations, receipts and disbursements of all State agencies and institutions are recorded in the budgetary ledgers. Totals by transaction type are balanced with the Office of the State Controller at the end of each month. A bank ledger is maintained to account for all banking transactions that result from the State Treasurer's function of acting as banker for all State agencies, and institutions and as the State's chief investment officer. These transactions include the deposit of funds into the State Treasurer's State-wide Depository Accounts, warrant clearings and investment transactions. The bank ledger is extremely important as it is used to reconcile depository and central clearing account bank statements and to monitor the bank account balances on a daily basis.

**Operations/Banking** — The Banking Unit of the Operations Section provides a disbursing account service to the various State agencies, institutions, community colleges, and local school units. The Unit accepts State warrants for payment daily from 10 area banks as well as from the Charlotte Branch of the Federal Reserve Bank and the State Employees Credit Union. As the banks' cash letters are balanced, valid warrants are charged against the proper disbursing accounts of the various agencies. The disbursing account service, similar to the commercial checking account service provided by the banking community to its customers, renders statements, along with the cancelled warrants, to some 700 active accounts. In addition, the Unit provides magnetic tapes of warrants paid to 163 of these accounts to facilitate automatic account reconciliation.

The number of warrants processed by the Unit during fiscal year 1988-89 increased some 7% over the number processed during the prior fiscal year, from 14,605,756 to 15,681,013. Activity associated with maintenance of the accounts included the processing of 1,483 alleged forgeries and 21,294 stop payments.

The Banking Unit also provides a depository service for State agencies located in Raleigh. By having the agencies deposit their daily receipts with the Banking Unit instead of into a depository bank, the Department's check-sorting equipment can be utilized to sort the items by banks on which they are drawn. The resulting qualified "on-us" deposits are then presented directly to the individual banks, thereby obtaining same day availability. An increase of one day's availability on approximately \$2 million is obtained daily by utilizing this method.

**Operations/Investment** — The Investment Unit of the Operations Section is primarily responsible for the completion of all investment transactions after they have been entered into by the Investment Management Section, which entails consummating the receipt and delivery of the securities traded versus payment. Associated with this function is the timely collection of all interest and dividend payments, as well as all maturing securities. In order to take advantage of the modern concepts of book-entry and central depositories, the custodian functions for all eligible securities are performed through contractual arrangements, by The Bank of New York. The Bank of New York utilizes both the Depository Trust Company and the Federal Reserve Bank book-entry system. These arrangements enable the State to participate actively in the securities lending market.

The Unit also monitors the collateralization of public deposits in North Carolina banks and savings and loan associations. Collateralization is required for deposits exceeding any FDIC or FSLIC coverage. At June 30, 1989, some 100 depositories had securities with a total market value of over \$2 billion pledged to the State Treasurer through 18 different escrow agents. Sixty-two (62) of these depositories were "Option 2" institutions, utilizing a program where their individual accounts with the



State Treasurer covered the deposits of local governmental entities across the State. Of the total securities pledged at June 30, 1989, approximately 30 % was to secure State deposits.

In other areas of responsibility, the Unit provides safekeeping services for securities held as "good faith deposits" for other State agencies, including the Departments of Agriculture, Public Education and Revenue. These securities amounted to \$4.2 million at June 30, 1989. A statement of securities held in trust is shown in Table 3 on Page A-40.

### **Projects Completed and/or In Progress**

**Collateralization Rules Amendments** — In an effort to strengthen the Option 2 method used by financial institutions to collateralize public deposits, amendments were made to 20 NCAC 7, the portion of the Administrative Code governing the collateralization process. The amendments were adopted with the effective date being September 1, 1988. The major change involved valuing securities pledged at market value as opposed to par value. Another major change encourages Option 2 institutions to maintain a 10 percent excess cushion, by requiring monthly reporting (as opposed to quarterly reporting) for those which do not maintain a cushion of at least 10 %.

The amended Rules also provide for certain financial institutions to file a "Selected Financial Data Report" with the Treasurer's Office on a quarterly basis. This report allows the Division to calculate certain capital adequacy ratios for each institution. With this information now available, a more refined determination can be made regarding the amount of State funds which may be placed with each institution. A formula was developed which evaluates the net worth of both banks and savings institutions on a GAAP basis. This process is expected to be of valuable assistance as the requirements of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRRA) unfold.

**Automated Clearing House** — Giant strides were made in expanding our utilization of the Automated Clearing House (ACH). The Department has offered retirees the option of receiving their monthly retirement benefits through direct deposit since 1977. The participation rate reached an all time high this year, with some 41,000 retirees (50 %) now receiving their payments through this method. Including the other six major payroll centers in the State, over 100,000 people now receive their monthly pay/benefits through direct deposit, amounting to total payments of over \$1 billion annually.

With the installation of available PC software, the Division implemented two programs during the year which for the first time allowed the Treasurer's Office to utilize "ACH debits" to collect funds due the State. Beginning in December, ACH debits were used to concentrate funds deposited in the 48 banks that are not a part of the already established cash concentration system. Beginning in March, ACH debits were utilized to collect interest coming due on certificates of deposit

and savings certificates from some 90 banks and savings institutions across the State.

**Investment Accounting System** — During the fiscal year ended June 30, 1989 several improvements were made to the Investment Accounting System (IAS) Version 2.2.2 which made the system more useful for investment accountants and managers.

One such improvement was the change in the daily calculation of the amortization of bond discount or premium. The former system scientifically calculated a bond price on each payment date, and amortized that difference on a daily straight line basis between dates. The system now recalculates a unit price on the basis of the bond yield each day, and records the amortization of discount or premium necessary to adjust to that price. Although this change does not materially affect the amount of income recorded during the fiscal year, it has enhanced the value of the system as a trading tool, since unit prices and yields are always consistent.

Other areas of improvements in the system during the fiscal year were cash projection, simulation of exchanges, and the maintenance of participant account balances. More improvements to these and other areas of the system are expected in the future.

A major improvement in process concerns the accounting for mortgage-backed bonds. Accounting for and managing such bonds presents a unique challenge since monthly payments may vary in amounts. As a result, the expected life and yield of a bond is affected by economic conditions and may vary over time. The goal of the project is to amortize these bonds daily while providing investment managers with current and accurate data about these securities so that they may more effectively manage these investments.



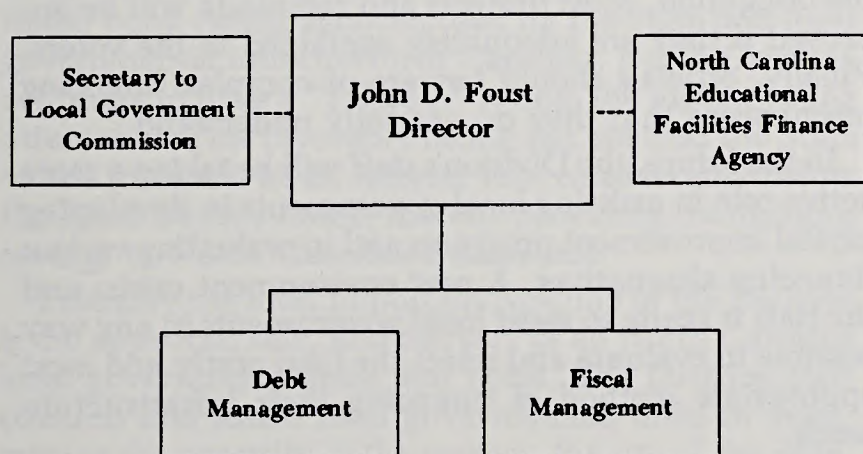
# State and Local Government Finance Division

The State and Local Government Finance Division is organized to provide the State Treasurer, the Local Government Commission, and the North Carolina Educational Facilities Finance Agency with staff assistance in fulfilling their respective statutory functions. The Division is organized along functional lines into two major groups of services: Debt Management and Fiscal Management.

Assistance is rendered to local governments and public authorities in North Carolina on behalf of the Local Government Commission. The Local Government Commission, a part of the Department of State Treasurer, approves the creation of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the Lieutenant Governor, and one by the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission and the North Carolina Educational Facilities Finance Agency.

The Division handles the sale and delivery of all State debt and monitors the repayment of State and local government debt.

## Table of Organization



## Operational Highlights

- Local governments saved in excess of \$17.5 million in bond principal as a result of a discount purchase program offered by the Farmers Home Administration.
- Achieved an average interest rate 44 basis points below the national Bond Buyer's Index on over \$482 million in tax-exempt general obligation bond sales.
- Capital Appreciation Bonds (CABs) were included in bond sales to provide investors with a means of funding educational expenses or other future needs.
- The North Carolina Educational Facilities Finance Agency sold \$30,000,000 in tax-exempt bonds, affording considerable savings in interest costs for Wake Forest University.
- During the initial year of implementation, the North Carolina Industrial Revenue Composite Bond Pool sold two issues, providing over \$7.5 million in tax-exempt financing to small and medium-sized manufacturing firms.
- Industrial revenue bonds were issued totaling over \$116 million.
- Twenty-three low interest rate clean water revolving loans and grants were awarded to local governments for the construction of water and sewer systems.
- The Division's staff began writing and publishing the Bond Reporter, a monthly publication on bond activity in the State.
- The Division's staff provided extensive technical assistance to both county and school personnel in planning school bond referenda and debt issues, which have increased in number as a result of the substantial funding sources made available by the State for school construction.
- In cooperation with the Department of Environment, Health, and Natural Resources, regional seminars were held for representatives of soil and water conservation districts to explain the annual audit requirements for public authorities, with which the districts must comply.
- The Division expanded its on-site assistance to provide management advisory as well as the traditional financial advisory services to local governments.



- Informational memoranda on various topics were prepared for units of government and Certified Public Accountants.
- The staff prepared the Fiscal Summary of North Carolina Counties to provide comparative financial information to county officials for their use in budgeting and in comparing their own county's operations to those of other counties.
- An illustrative comprehensive annual financial report for counties was prepared to provide guidance to counties that are trying to obtain the Government Finance Officers' Association Certificate of Achievement for Excellence in Financial Reporting.
- The staff reviewed single audit reports for approximately 700 units of local government because of the requirements of the Federal and State Single Audit Acts.

## Tax-Exempt Finance In General

Many surveys, studies, and other research projects have identified the growing backlog of infrastructure needs in the State in many areas such as solid waste disposal, jails, schools, water and wastewater, and highways. This problem is not unique to North Carolina, but is part of a national trend. Prompt action on these needs is essential if the State is to maintain the quality of life for its citizens and continue to attract business development as part of its enviable economic development efforts.

To assist in addressing this problem, the 1989 Session of the General Assembly enacted two significant pieces of legislation to provide flexibility to local governments so they can address these essential infrastructure requirements. In H.B. 960, the General Assembly clarified the authority of local governments to enter installment purchase contracts to construct or obtain capital assets by pledging a security interest in the property being acquired. Also, S.B. 115 will enable local governments to use special obligation bonds that pledge uncommitted non-tax revenues to finance the acquisition of solid waste disposal facilities. Neither of these financing techniques pledges the taxing power of a local government that is acquiring an asset; therefore, neither requires a voter referendum. By enacting this legislation, the General Assembly is both acknowledging the State's infrastructure needs and assisting units of government in promptly meeting these needs.

The two financing mechanisms discussed above add to an increasingly complex array of financing alternatives available to local governments for utilization in financing their capital needs. This is a change from the traditional "pay-as-you-go" and general obligation and revenue bond financing used by most North Carolina local governments. Growing infrastructure needs and the large number of financing alternatives necessitate the use of long-term capital planning and the careful consideration by local government officials of the appropriate financing alternative to use in a particular situation.

Capital planning and finance require two key actions, the first of which is the preparation of a comprehensive

capital improvements plan. A large number of local governments in North Carolina already prepare five-to-ten year capital plans. When used correctly, these capital plans can assist local government officials in identifying the projects they wish to undertake and in scheduling the outlays for the projects. Pulling together the cash flows from the designated projects into a single comprehensive capital plan highlights the capital outlays a local government must make in each fiscal year. Use of a long-term capital plan will assist a local government in avoiding the evaluation of a single project at a time and is the essential first step in preparing a comprehensive financing plan.

After projects have been scheduled, financing alternatives can then be matched to the projects to complete the capital financing plan. In evaluating alternatives, local officials should determine the combination of financing methods that will incur the least total cost to the local government. This will require the preparation and analysis of the cash flows both from the projects and the alternative financing methods. Officials should evaluate several alternatives rather than deciding on a single financing mechanism before any analysis is performed. Many considerations that are unique to a unit will affect the selection of a financing alternative, such as the amount of funds on hand, the size of the project, the life of the asset, the political environment, etc. These are just some examples of areas that should be carefully considered.

This entire process is complex and requires careful planning; however, local officials can simplify the process if they will remember a few key guidelines. First, the financial markets are changing and are more complex; consequently, long-term planning is essential. Next, the many alternative financing arrangements each have unique characteristics, making them appropriate for some types of projects, but inappropriate in other situations. Local officials should not try to use the same financing method in every situation. Another important item to remember is that the citizens of North Carolina have historically approved a very large percentage of general obligation bond referenda. For most large projects, general obligation bonds will be the least costly financing alternative; therefore, local officials should be extremely cautious in selecting another financing method if the sole purpose is to avoid a vote of their citizens on the obligation. Most projects and referenda will be approved if they are adequately explained to the voters. Finally, officials should beware of complex financing mechanisms that they do not fully understand.

In the future, the Division's staff will be taking a more active role in assisting local governments in developing capital improvement programs and in evaluating various financing alternatives. A new environment exists, and the staff is ready to assist local governments in any way possible to evaluate and select the least costly and most appropriate method of financing their infrastructure needs.



## The State of Tax-Exempt Financing

As one of the last few remaining tax shelters, governmental bonds continue to be an attractive means of financing for local governments. Without tax-exempt financing the interest rate charged on borrowed funds could increase from 1 to 3%, which would ultimately be paid by utility customers and taxpayers.

Market conditions were favorable for tax-exempt debt during the fiscal year. Interest rates trended downward with the Bond Buyer's Index of 20 General Obligation Bonds standing at 7.74% on July 1, 1988 and 7.02% on June 30, 1989.

### Basic Functions

**Debt Management** — The Division issues and monitors all State debt secured by a pledge of the taxing power of the State. After the approval of a bond issue, the Division, with the assistance of other State agencies, determines the cash needs; plans for the repayment of debt (maturity schedules); and schedules bond sales at the most appropriate time. An official statement describing the bond issue and other required disclosures about the State, is prepared with the advice and cooperation of bond counsel. Finally, the Division handles the actual sale and delivery of the bonds, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 1989, the State had general obligation bonds outstanding of \$660 million. (See Tables 7 and 8.)

The Division also is responsible for the authorization and sale of revenue bonds for the North Carolina Medical Care Commission, the Municipal Power Agencies, the North Carolina Educational Facilities Finance Agency, the North Carolina Housing Finance Agency, and the North Carolina Industrial Facilities and Pollution Control Financing Authority. These bonds are secured only by the specific revenues pledged in payment thereof. The staff works with these agencies' personnel in determining the feasibility and scheduling of the bond offering, in structuring the issue and the underlying security documents, and in preparing the data which must be presented to the Local Government Commission for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investor Service, Inc., and Standard and Poor's Corporation, the two national bond rating agencies used by the State and local governmental units in North Carolina. North Carolina continues to have a "Triple-A" rating, the highest rating attainable. This favorable rating has enabled the State to sell its bonds at an interest rate considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

Probably the most important function of the Division is the approval, sale, and delivery of all North Carolina local government bonds and notes. The Division staff counsels and assists local governmental units in determining the necessity of the project, the size of the issue, and the most expedient form of financing. A review is

made of the debt management policies of the unit, the effect of the financing on the tax rate, and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates, and the times when the bonds can be sold with a minimum of competition. The staff strives to resolve all problems and determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

After approval is granted, the governmental unit and its bond counsel assist the staff in gathering and assembling information for an official statement, which is mailed to a large group of investment bankers nationwide. The general obligation bonds are awarded through the competitive bid process on the basis of lowest total net interest cost to the governmental unit.

After the sale, the staff delivers and validates the definitive bonds and ensures that the moneys are promptly transferred from the buying brokers to the governmental unit.

In addition to bond sales, the staff assists the units in selling certain short-term debt obligations. These may be bond anticipation notes to provide interim funding of projects until the definitive bonds are sold, or they may be other notes secured by specific pledges of taxes, grants, or future revenues. Authorization for short-term debt obligations also is based upon Local Government Commission approval.

Debt records are maintained for all units on principal and interest payments coming due in the current and future years. All debt service payments are monitored through a system of monthly reports.

At June 30, 1989, authorized and unissued general obligation bonds for local governments amounted to \$1,513,448,200, and general obligation bonds outstanding amounted to \$2,832,804,110. (See Table 7.) During the 1988-89 fiscal year, bonds and notes were sold in the amount of \$706,765,796. This is more fully described in Chart 17. Of the \$482,165,300 general obligation bonds marketed for local units, \$430,545,000 were sold competitively at tax-exempt rates averaging approximately 44 basis points below the national average (according to the Bond Buyer's Index), thus saving these local units approximately \$1.9 million in interest costs for the first year. Over the life of these bonds, the issuers are expected to save in excess of \$19 million in interest costs. This is a result, in part, of the Division's successful efforts in maintaining and upgrading the bond rating of the State and local units and in monitoring the fiscal soundness of the individual local units.

The Division staff also assists in the sale of revenue bonds, which must have the Commission's approval in order to be issued by municipalities, joint municipal electric power agencies, county industrial facilities and pollution control financing authorities. These bonds are secured only by specific revenue pledged in payment of the bonds. (See Chart 18.)

Another responsibility of the Division staff is assisting units that desire to enter into agreements to finance the



**PURPOSES FOR WHICH LOCAL GOVERNMENTS  
SOLD BONDS AND NOTES**

Fiscal Year 1988-89

	<u>Schools</u>	<u>Utilities</u>	<u>Other</u>	<u>Total</u>	
				<u>No.</u>	<u>Amount</u>
<u>G. O. Bonds</u>					
Counties . . . . .	\$144,705,000	\$ 37,375,000	\$ 81,129,200	31	\$263,209,200
Municipalities . . . . .	—	100,435,400	100,442,600	58	200,878,000
Districts and Authorities . . . . .	—	10,319,000	7,759,100	12	18,078,100
Total G. O. Bonds . . . . .	<u>144,705,000</u>	<u>148,129,400</u>	<u>189,330,900</u>	<u>101</u>	<u>482,165,300</u>
<u>Revenue Bonds</u>					
Counties . . . . .	—	—	79,957,708	4	79,957,708
Municipalities . . . . .	—	16,760,000	19,762,424	5	36,522,424
Districts and Authorities . . . . .	—	—	54,998,364	2	54,998,364
Total Revenue Bonds . . . . .	<u>—</u>	<u>16,760,000</u>	<u>154,718,496</u>	<u>11</u>	<u>171,478,496</u>
<u>Notes</u>					
Bond Anticipation . . . . .	8,965,000	30,697,000	13,460,000	40	53,122,000
Total Notes . . . . .	<u>8,965,000</u>	<u>30,697,000</u>	<u>13,460,000</u>	<u>40</u>	<u>53,122,000</u>
Total Bonds and Notes . . . . .	<u>\$153,670,000</u>	<u>\$195,586,400</u>	<u>\$357,509,396</u>	<u>152</u>	<u>\$706,765,796</u>

Chart 18

**DEBT MANAGEMENT ACTIVITIES - STATE AND LOCAL**  
(In Millions of Dollars)

	<u>FY 1986 - 87</u>		<u>FY 1987 - 88</u>		<u>FY 1988 - 89</u>	
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
<u>Bonds Sold for State</u>						
G. O. Bonds (General Fund) .....	1	\$ 46.0	—	\$ —	1	\$ 20.5
G. O. Bonds (General Refunding) .....	1	210.0	—	—	—	—
G. O. Bonds (Highway Refunding) .....	1	250.0	—	—	—	—
Revenue Bonds (Battleship) .....	—	—	—	—	—	—
Total .....	<u>3</u>	<u>506.0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>20.5</u>
<u>Bonds and Notes Sold for Local Governmental</u>						
Units:						
G. O. Bonds .....	56	386.6	174	653.1	101	482.2
Revenue Bonds .....	8	200.6	11	113.5	11	171.5
Notes .....	39	37.3	45	57.5	40	53.1
Total .....	<u>103</u>	<u>624.5</u>	<u>230</u>	<u>824.1</u>	<u>152</u>	<u>706.8</u>
<u>Special Obligation Bonds Sold for</u>						
Medical Care Commission:						
Revenue Bonds .....	4	164.3	6	130.5	5	127.9
Sold for Housing Finance Agency:						
Revenue Bonds .....	2	58.1	2	79.0	1	75.0
Sold for Power Agencies:						
Revenue Bonds .....	1	1,006.5	2	831.2	1	429.6
Sold for Industrial Facility and Pollution						
Control Authorities:						
Revenue Bonds .....	22	146.8	14	78.1	31	190.2
Sold for Educational Facilities:						
Revenue Bonds .....	—	—	4	76.3	1	30.0
Total Special Obligation Bonds .....	<u>29</u>	<u>1,375.7</u>	<u>28</u>	<u>1,195.1</u>	<u>39</u>	<u>852.7</u>
Grand Total .....	<u>135</u>	<u>\$2,506.2</u>	<u>258</u>	<u>\$2,019.2</u>	<u>192</u>	<u>\$1,580.0</u>



lease or installment purchase of capital assets. Local Government Commission approval is required when the contract or agreement extends for five or more years; obligates the unit to pay sums of money to another, without regard to whether the payee is a party to the contract; obligates the unit to the extent of \$500,000 or a sum equal to one tenth of one percent (1/10 of 1%) of the appraised value of property subject to taxation by the unit, whichever is less; and, obligates the unit, expressly or by implication, to exercise its power to levy taxes either to make payments under the contract or pay any judgement entered against the unit due to breach of contract.

Before approving such agreements, the Local Government Commission must find that the proposed project is necessary and expedient; the proposed undertaking cannot be economically financed by a bond issue; and the contract will not require an excessive increase in taxes. During the fiscal year ended June 30, 1989, the Local Government Commission approved contracts or other agreements totaling \$38.4 million. (See Table 6.)

The Division serves as staff to the North Carolina Educational Facilities Finance Agency, an agency established by the General Assembly in 1986 authorized to finance or refinance, construct, provide, or acquire higher educational facilities. This Agency affords private institutions of higher education in the State a measure of assistance and an alternative method for providing needed facilities and structures.

Following initial contact from a college/university, the staff generally begins the process of determining project feasibility and desirability with a preliminary conference. Upon receipt of an application, the financial capability and responsibility of the college/university is reviewed through ratio and trend analysis. The staff presents the project and its recommendations to the seven-member Educational Facilities Finance Agency and subsequently to the Local Government Commission for approval. (All debt issued by the Agency also must be approved by the Local Government Commission.)

**Fiscal Management** — An important function of this Division is monitoring certain fiscal and accounting standards prescribed for local governmental units by The Local Government Budget and Fiscal Control Act. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides assistance to them in following generally accepted accounting principles. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a Certified Public Accountant or by an accountant certified by the Commission as qualified to audit local government accounts. Because of recent changes in the field of governmental accounting and the enactment of the Federal Single Audit Act and the State Single Audit Act, the Division has had a particularly complex task in monitoring annual audit reports for compliance with generally accepted accounting principles and single audit disclosure requirements.

To carry out these responsibilities, continuing assistance is provided to the independent auditors of local

governments, particularly in the area of professional education. Several members of the staff serve on the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants (NCACPA), as well as other related NCACPA committees. The staff helps prepare and instruct eight continuing professional education courses in governmental accounting and auditing. These are each presented several times annually to independent auditors through the auspices of the NCACPA. In addition, all exposure drafts of the Governmental Accounting Standards Board are analyzed, and the staff's comments and recommendations on these drafts are submitted to this Board.

In providing assistance to local governments, units are counseled in accounting systems and internal controls, treasury and cash management, budget preparation, changes in laws and regulations, and investment policies and procedures. On-site assistance is furnished to local governments with regard to financial and accounting systems and management services. Educational programs, in the form of seminars or classes, also are provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by the Institute of Government; the finance officers' associations; the Municipal Treasurers' Association; and numerous other county, municipal, and school organizations.

The Division has expanded its assistance role by maintaining computerized databases of historical information from local government audit reports, city and county Annual Financial Information Reports, and Reports of Cash Balance. The information collected is used in a variety of ways to automate operations and enhance the assistance provided to local governments. The files also are utilized in special projects that benefit the operations of the State. Upon request, data is provided to such organizations as the U.S. Bureau of the Census, the N.C. Department of Revenue, the General Assembly, the N.C. League of Municipalities, the Institute of Government, and the N.C. Association of County Commissioners to assist these groups in their activities.

## **Significant Accomplishments**

### **Debt Management**

**Farmers Home Administration Asset Sale:** For the second year in a row, North Carolina units participated in a Discount Purchase Program. Substantial savings were achieved through the cooperation of North Carolina banks, the North Carolina Association of County Commissioners, and the North Carolina League of Municipalities. A total of 39 units refinanced their debt for a combined savings in excess of \$17.5 million.

**Capital Appreciation Bonds:** Legislation passed by the General Assembly in 1987 authorized the sale of these bonds with a primary goal of assisting people wishing to provide funds to educate children. The bonds, which can be purchased at a discount, accumulate value until maturity rather than paying interest each year. Investors have actively pursued these bonds because of their attractive features for educational and other purposes.



During the year, seven bond issues included a total of more than \$35.4 million in capital appreciation bonds.

**Volume Cap Allocation:** Legislation was approved by the 1987 Session of the General Assembly to maintain a State pool of the federal volume cap from which projects could be approved, thus giving maximum flexibility in use of the volume cap. For the calendar year 1988, the State was allotted \$308 million to use for private activity bonds. In 1989 the volume cap will remain at \$308 million plus adjustments for changes in population.

**"Triple-A" General Obligation Bond Ratings:** A "Triple-A" general obligation bond rating is the highest attainable and reflects strengths in debt position, economic base, administrative variables, and financial performance. Standard & Poor's rating agency has assigned "Triple-A" general obligation long-term debt ratings to states, counties, and cities throughout the entire United States. The following North Carolina units represent approximately 21 percent of the "Triple-A" bond ratings issued by Standard & Poor's: the State of North Carolina; the counties of Durham, Mecklenburg, and Wake; and the cities of Charlotte, Raleigh, and Winston-Salem. In addition, the Special Airport District of Durham and Wake Counties also enjoys a "Triple-A" rating. To quote from Standard & Poor's Credit Surveys: "The 'AAA' General Obligation rating for cities, counties, and states indicates that very high standards have been achieved and maintained."

**Industrial Revenue Bonds:** The use of industrial revenue bonds has contributed to North Carolina's impressive record of industrial development. These bonds provide tax-exempt financing and are used to attract manufacturing industries to the State. Since 1976, there have been 772 issues totaling over \$3.1 billion. In the fiscal year ended June 30, 1989, 31 issues of Industrial Revenue and Pollution Control Facilities Bonds were approved for a total of \$190,170,000. The Tax Reform Act of 1986 significantly affected their issuance this year. Preapplication conferences were considerably more frequent at fiscal year end, as interested firms positioned themselves to be able to issue debt before December 31 if the existing legislation for tax-exempt industrial revenue bonds was not extended. Planning was being carried out to accommodate both "pool" participants and "stand alone" issuers as needs might dictate.

**North Carolina Educational Facilities Finance Agency:** The North Carolina Educational Facilities Finance Agency (NCEFFA), created in 1986 by the General Assembly, adopted permanent rules, established an application/review process, and supplied \$76.3 million in capital financing during its initial year of operation.

Through the Agency, the benefits of tax-exempt financing are available to nonprofit, private institutions of higher education in the State of North Carolina. This can mean considerable savings in interest costs for these institutions over the life of a bond issue. Most capital projects undertaken by a college or university can be financed through the Agency except for items that are customarily deemed to be current operating charges, facilities used as a place of religious worship, and

facilities used by a department of divinity for any religious denomination.

Thus far the Agency has provided approximately \$106.3 million for capital financing. During the current fiscal year, Wake Forest University utilized \$30,000,000 of bond financing to help fund its capital project program exceeding \$50 million dollars. At fiscal year end, Guilford College, Queens College, and Wake Forest University (Bowman Gray School of Medicine) were pursuing projects to be financed, wholly or in part, through the Agency in the upcoming year.

**North Carolina Clean Water Revolving Loan and Grant Funds:** The North Carolina Clean Water Revolving Loan and Grant Fund was established by the 1987 General Assembly to provide low-interest loans to local governments constructing or improving upon water and sewer operations. The Fund was initially appropriated \$21.5 million for the 1987-89 biennium and received an additional appropriation of \$19.3 million in 1988 for the 1988-89 fiscal year. Demand for the funds far exceeded the amount appropriated for the 1988-89 fiscal year. The intent is for this Fund to become self-perpetuating and for a permanent water and sewer loan fund to be made available.

The staff is responsible for reviewing the applicant's fiscal/debt management policies, determining the feasibility of the project, and coordinating the loan offers with the Department of Environment, Health, and Natural Resources. Maturity schedules are prepared for each loan, and the staff oversees the signing of the promissory notes.

In 1988-89 a total of 23 units were selected to receive loans ranging from \$77,000 to \$2.8 million. From our review there was no evidence that these 23 successful applicants would have been excluded from selling general obligation bonds in the marketplace.

**Initial Issuances of the North Carolina Pooled Industrial Revenue Bond Program:** This new State program is designed to make low-interest industrial revenue bond financing available to small and medium-sized manufacturing firms. In this program several small financing packages are combined into one large composite issue, thus spreading the overhead costs among all borrowers. During the program's initial year of implementation, two issues were closed providing over \$7.5 million in financing to six firms in six different counties with individual needs as low as \$650,000. Thus far, 24 counties have elected to join the North Carolina Industrial Facilities and Pollution Control Financing Authority.

**Technical Assistance to Counties and Schools on Financing Capital Needs:** The Division's staff received numerous requests during the year for technical assistance in planning the bond financing for school capital facility needs. All counties and school superintendents were provided information on projected revenues, alternative financing strategies, and bond capacity based on projected revenues. On request from a county, individual financing plans were developed based on construction schedules and revenues committed by the county for school facility needs. Subsequently, planning conferences were held which included



representatives from both the school system and the county to coordinate efforts in providing for school facilities.

**Bond Reporter:** In January the staff began publishing the Bond Reporter and distributing it to potential investors, CPAs, local units, and bond counsel expressing an interest in municipal finance. Each issue summarizes financial activity, both proposed and recently completed, throughout the State. In addition to summarizing activity and stimulating investor interest, educational and informational articles are included to keep local units and investors aware of current developments, both in the State and in the marketplace.

### **Fiscal Management**

**County/Municipal Statistical Profiles:** In May of 1989, the staff published the Fiscal Summary of North Carolina Counties, which provides comparative financial information about North Carolina county governments. The publication, a joint effort by the Division and the North Carolina Association of County Commissioners, presents revenue and expenditure pie charts, per capita data, graphic summaries of property tax collections, and percentages of available fund balance. Summary information is presented for the entire State, county population groupings, and individual counties. This publication was targeted towards elected and appointed officials of local governments for their use during the budget process. By comparing their own county's current and past performances to similar counties and statewide averages, a local government should be able to improve upon its performance. Besides updating this publication annually, the staff will issue a similar publication for North Carolina cities next year in cooperation with the League of Municipalities.

Similarly, the staff prepared an analysis of revenues and expenditures for municipalities with populations below 1,000 for the fiscal year ended June 30, 1988. The Division plans to utilize this information when analyzing funding needs for small municipalities.

**The North Carolina Cash Management Trust:** The balance of the Cash Fund in the North Carolina Cash Management Trust (NCCMT) grew significantly from June 30, 1988 to June 30, 1989. At fiscal year-end, the Cash Fund totaled \$903 million, an increase of almost 50%, while the Term Portfolio had a year-end balance of \$84 million. There were 459 participants in the Cash Fund at June 30, 1989, as compared to 449 one year earlier. The number of participants in the Term Portfolio remained unchanged at 93. The NCCMT is one of the largest local government investment pools in the nation.

The amount of funds transferred over the Governmental Moneys Transfer System (GMTS) for the fiscal year ended June 30, 1989 was approximately \$1.19 billion, representing a 39.0% increase over the prior year. This system provides for an efficient transfer of funds between the State and local governments and ensures that moneys are constantly invested, resulting in no loss of interest earnings. These distributions consisted

of sales and use taxes, utility franchise taxes, Powell Bill funds, intangibles taxes, and various other taxes and programmatic revenues.

**Illustrative Comprehensive Annual Financial Report (CAFR):** In cooperation with the Institute of Government at the University of North Carolina at Chapel Hill, the staff prepared an illustrative CAFR for a North Carolina county. The staff received input from CPAs and public officials across North Carolina and incorporated many of their recommendations into the final report. Also, the CAFR received an informal review from the Government Finance Officers Association for compliance with the requirements of its Certificate of Achievement for Excellence in Financial Reporting program. In early 1990, the Institute of Government will publish the illustrative CAFR and utilize it as supporting material for educational programs. In the future, the staff will prepare similar financial reports for municipalities and boards of education.

**Review of Semi-annual Reports of Cash Balance:** The semi-annual Reports of Cash Balance for the six months ended June 30, 1988 and December 31, 1988, submitted by local governments and public authorities, have been examined by the staff of the Division. The reports are reviewed to determine strengths and weaknesses in the units' investment portfolios and to identify instances of noncompliance with the North Carolina General Statutes. Weaknesses are communicated in writing to the units along with suggestions for improvement.

Also, the staff compiles statistics on the deposits of each local government and public authority in financial institutions in order to evaluate whether the public funds of local units were adequately insured or collateralized.

**RESPOND Electronic Bulletin Board System:** The staff provided investment and financial data to local governments and CPAs through the RESPOND bulletin board system, which is managed by the Center for Urban Affairs and Community Services at North Carolina State University. The economic data included bond sales information, selected economic indicators and events, and interest rates. Financial data consisted of data from city and county annual financial information reports. In the future, additional financial and economic data will be provided for utilization by local governments and CPAs.

**Tax Billing and Collection Analysis:** In a continuing effort to determine possible areas where local governments could operate more efficiently, the Division distributed a questionnaire to each county tax collector asking for information concerning the consolidation of tax billing and collection efforts between counties and municipalities. The Division believes that consolidating property tax functions could provide a more economical use of public funds. After compiling the survey responses, the Division sent an analysis of this information to units of local government along with the recommendation that all units not using consolidated efforts consider doing so in the future.



**Receipt and Mobilization of Public Funds:** Through the analysis of the responses to survey questions included in the Annual Financial Information Report, the staff of the Division was able to evaluate the cash concentration systems of local governments. The completed data indicated that there may be room for improvement in the receipt and mobilization of public funds. Information from the surveys along with suggested improvements were communicated to local governments and public authorities to allow them to use public funds more efficiently.

**Analysis of Hospital Operations and Financing:** Two statistical reports related to public hospital operations and financing by counties and municipalities were prepared. The first of these is a report on specific operating statistics for public hospitals for the past four fiscal years. This report includes information compiled from hospital audit reports on net working capital, total revenues and expenses, fund equity, quick ratio, and net income. The second report provides data on municipal and county funding of public hospitals during the past fiscal year. These summaries were developed to analyze public hospital operations and to assess these organizations' needs for additional funding.

In addition to these two reports, the staff has begun compiling a variety of other data on public hospital financial performance to evaluate their operations and continued financial soundness.

**Focus Changes for Unit Visits:** Historically, periodic on-site technical assistance has been provided by staff members of the Division to units of local government experiencing financial or budgeting problems. In an effort to prevent these problems, the Division has expanded its technical assistance to include management advisory as well as the traditional financial advisory services. A staff member with many years of experience as a town manager is assisting units in improving management techniques, and thus avoiding future financial problems.

**Audit Manual for Governmental Auditors:** This manual is issued to all CPAs performing governmental audits in North Carolina (approximately 450). It contains the following: references to authoritative sources and literature, sample internal control questionnaires and audit program guides, illustrative financial statements, sample independent auditor's reports and single audit reports, memoranda and publications, and compliance supplements written by State agencies for various federal and State grants. Every year this manual is updated to reflect Governmental Accounting Standards Board (GASB) pronouncements issued during the year and other newly available information. The State Single Audit legislation mandates the preparation of compliance supplements by State agencies, their review and approval by the State Auditor, and issuance by this Division. This information is distributed in the Audit Manual for Governmental Auditors.

**Audit Review Process:** The staff of the Division annually reviews the audit reports of approximately 1,050 units of local government. Each review consists of the

following: an analysis of proper presentation of the financial statements in accordance with generally accepted accounting principles; an analysis of proper reporting in accordance with Single Audit requirements, where applicable; and an evaluation of the financial condition of the unit and its compliance with The Local Government Budget and Fiscal Control Act. As a follow-up to reviews where problems are noted, local governments and public authorities, as well as their independent auditors, receive written communication expressing the staff's concerns, suggestions for improvements, and an offer of further assistance if needed. Also, memoranda are enclosed when appropriate as a means of providing additional assistance on topics such as collecting delinquent property taxes, consolidating the property tax billing and collecting functions, budgeting and related issues, and internal controls. A response detailing the unit's plans to take corrective action is requested. Approximately 435 of these letters were sent to units of local government during the 1988-89 fiscal year.

As a part of the audit review process, the Division's staff reviewed approximately 700 single audits. An extensive review is performed to insure that audits performed under the Federal and State Single Audit Acts meet all the provisions of the law as well as federal and State requirements. This is necessary before auditors' invoices can be approved so that State departments and agencies can rely on the reports as a basis for compliance with applicable federal and State regulations. The staff expects to review approximately 720 single audit reports during the coming year.

**Memoranda:** The preparation and distribution of memoranda to units of local government and their independent auditors is a significant service provided by the staff of the Division. Memoranda are of an informational, technical, or statistical nature. They are distributed periodically throughout the year to elected officials, finance officers, and local government independent auditors.

Several memoranda dealt with information of current significance. Topics included suggestions for procuring an audit; accounting for Farmers Home Administration (FmHA) refundings; changes in accounting for National Forest Timber Receipts; soil and water conservation districts; safeguarding, collateralization, and investment of public funds; the North Carolina Cash Management Trust; the new federal law concerning check endorsements; fundamentals of internal control; information relating to the performance of single audits; and a discussion of recent official pronouncements of accounting and auditing standards boards.

Other memoranda distributed by the staff at different points in the year were those which contain current statistical data of use to units of local government. Examples include reports on county spending for public school capital outlay, savings on the FmHA discount purchase program; statistical information on electric system operations; and the ability of local units to finance future capital improvements of water and sewer systems; management of cash and taxes for the year just



ended for counties and municipalities; and analysis of information from the latest semi-annual reports of cash balance. These reports help provide local governments with information they can use to compare their operations to those of similar units of government, thereby allowing them to highlight potential problem areas.

## **Projects in Progress**

**Innovative Financings:** The Division continues to receive many requests from units of local government in areas of non-traditional financing. Many of these financings have characteristics of "borrowing money;" therefore, each case has to be reviewed in light of statutory constraints that require voter approval. Guidelines and application forms have been drafted as a result of H. B. 960 enacted by the 1989 Session of the General Assembly. A desk reference on alternative methods of financing also is currently being finalized.

**Accounting Procedures Manual Update:** The staff continues to work on updating and restructuring the accounting procedures manual. Procedures currently in use by municipalities and counties have been revised and are in the final draft stage. New procedures have been added as well. Before publication and distribution, each procedure will be reviewed by finance officers in selected units around the State. Also, the format of the procedures manual will be restructured to accommodate the addition of updated sections and deletions of obsolete portions without having to reissue the entire manual. Individual procedures should be ready for distribution in the summer of 1990.

**Illustrative Financial Statements for Public Housing Authorities and Soil and Water Conservation Districts:** The staff will publish illustrative financial statements for these governmental units in the next fiscal year. The financial statements for a public housing authority have been prepared using two different formats: 1) modified accrual and 2) full accrual basis of accounting. Both formats have received a limited review from various CPAs and officials of public housing authorities. The staff will analyze their recommendations and will research recent developments in governmental accounting and financial reporting before deciding on an acceptable format. Financial statements for a soil and water conservation district operating as a public authority also will be issued in the near future. The financial statements will be reviewed by representatives of the Department of Environment, Health, and Natural Resources and various CPAs before issuance.

**Review of Revenue Bonds:** The staff is continuing to improve the Division's procedures for reviewing reports submitted by issuers of revenue bonds. The objective of this project is to develop a microcomputer program to identify when reports are due, indicate items to be checked for compliance with bond covenants, and insure prompt follow-up of late reports. These improvements will permit faster identification of issuers who are not in compliance with bond covenants or are experiencing financial difficulties.

**Requests for Proposals for Paying Agent and Registrar/Transfer Agent Services for State Debt:** Two requests for proposals (RFPs) were issued in the summer of 1989 to financial institutions having the capacity to meet the paying and registrar/transfer agent services required by the State for the next five years.

Organizations responding to the RFPs will submit both technical proposals and cost proposals. The technical proposals will be evaluated to determine which responders are qualified to provide the requested services. Each qualified bidder's cost proposal will then be analyzed to determine which organization is the lowest responsible bidder.

**Audits of Soil and Water Conservation Districts:** After discussions involving representatives from this Division; the Department of Environment, Health, and Natural Resources; and the Attorney General's Office, it was determined that soil and water conservation districts were subject to the requirements for an annual audit specified in G.S. 159-34. A joint memorandum was sent from this Division and the Department of Environment, Health, and Natural Resources to inform the districts of these requirements. In order to be in compliance with the General Statutes, the districts must either have a separate audit as a public authority or be included in the scope of the audit of the county in which they are located. To be included in a county's audit, a district must be integrated into the county's budgetary process and accounting system. The districts (there are currently 96) and counties have been informed of the two alternatives through technical memoranda and presentations at regional meetings across the State. Most districts have chosen to be integrated into the county's budgeting and accounting system. Individual assistance has been provided to help facilitate this process.

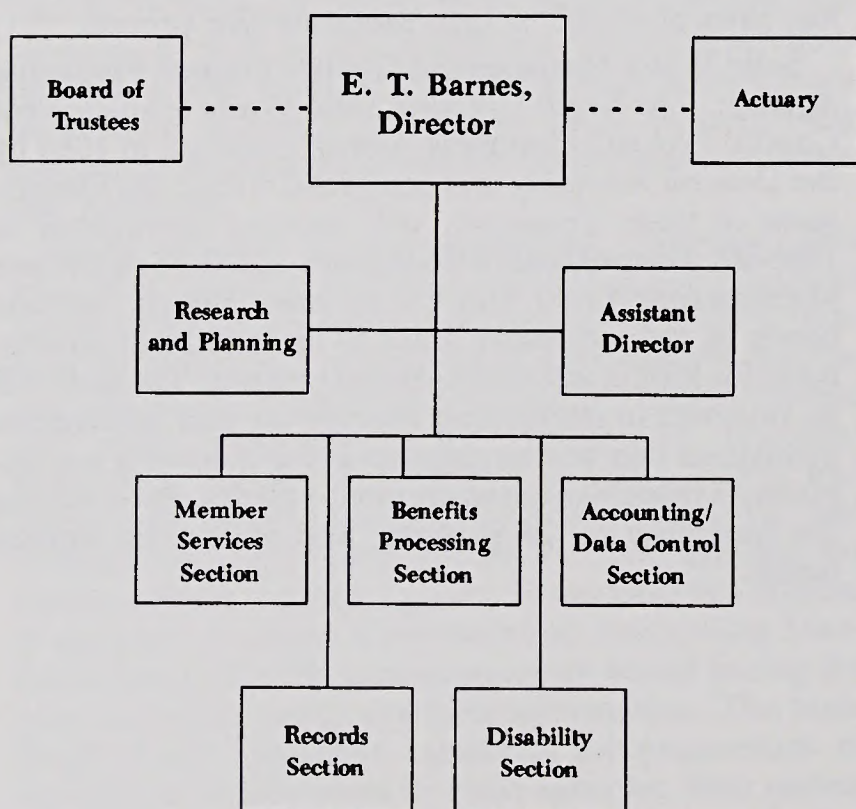
**Solid Waste Management Capital Projects Financing Agency:** The North Carolina Solid Waste Management Capital Projects Financing Agency, created in 1989 by the General Assembly and contained within the Department of State Treasurer, will become operational in 1989-90. The purpose of the Agency and the Solid Waste Management Loan Fund is to issue Agency revenue bonds in order to make loans to units of local government for solid waste management projects. The staff will be involved in developing regulations and application procedures and will be responsible for reviewing any applicant's fiscal/debt management policies, determining the feasibility of the projects, and selling the Agency bonds.



# Retirement Systems Division

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and fringe benefit plans, as authorized by the General Assembly of North Carolina, which cover the State's public employees. The administration of the several retirement systems requires a high level of fiduciary responsibility for the employees' trust funds with prudent, honest and efficient use of employees' and taxpayers' contributions. The public purpose of the existence of retirement systems and benefit plans is to recruit and retain competent employees for a career in public service, and provide a replacement income for retirement, disability or at death for an employee's survivors. The organizational structure below shows the functional arrangement of the tasks performed in this Division.

**Table of Organization**



## Operational Highlights

- Presented recommendations and draft legislation to the 1989 Session of the General Assembly which resulted in the enactment of laws: to increase the defined

benefit accrual rate from 1.60 % to 1.63 % for members and retirees in the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System; and to provide post-retirement increases of 3.5 % to most retirees.

- Processed benefits for over 5,000 new retirees.
- Implemented the provisions of the Registers of Deeds Supplemental Pension Fund.
- Implemented the provisions of the newly created Contributory Death Benefit for Retired Members.
- Converted over 4,500 retired files to microfiche mode.
- Implemented a computerized general ledger accounting program.
- Installed an electronic file retrieval system.

## Basic Functions

The retirement plans administered by this Division are the:

- Teachers' and State Employees' Retirement System
- Local Governmental Employees' Retirement System
- Consolidated Judicial Retirement System
- Legislative Retirement System

The systems are governed by two Boards of Trustees. The State Treasurer is ex-officio Chairman of each board. The board of the Teachers' and State Employees' Retirement System is composed of 14 actively working employees, retirees and public members. The Local Governmental Employees' Retirement System board, while legally separate, is composed of the same 14 members plus three members representing local governments. The Board of Trustees of the Teachers' and State Employees' Retirement System is the governing board of the Consolidated Judicial and Legislative Retirement Systems.

In addition to the retirement systems administered through this Division, responsibility for administration of other programs covers the:

- Public Employees' Social Security Agency
- Disability Income Plan
- Legislative Retirement Fund
- National Guard Pension Plan
- Teachers' and State Employees' Benefit Trust



- Supplemental Retirement Income Plan
- Registers of Deeds Supplemental Pension Fund
- Contributory Death Benefit for Retired Members

All retirement systems and other programs administered by this Division are operated on a calendar year basis from January 1 to December 31, rather than the State's fiscal year. For this reason, all data shown for the Division are for the captioned-year ending December 31.

The administrative expenses of the Division for the retirement systems are paid by receipts from the systems based on the ratio of members in each system to the total universe of members of all systems. Receipt support from other programs pays for their cost of administration based on a cost-center analysis.

### General Administration

The Director and his immediate staff are responsible for overall general operation of the Division, and carry out the policies and directives of the State Treasurer and the governing boards. They provide: assistance to legislators and committees of the General Assembly, including the drafting of proposed legislation and the acquisition of actuarial notes for each introduced bill; response to news media inquiries; action on administrative appeals by individual members of the retirement systems; a working relationship with associations and organizations of employees and employers; and information to State departments, agencies and institutions, and local governments. The staff provides assistance to local governments for Social Security coverage and acts as liaison between the State and the Social Security Administration. The staff also performs planning and research functions, and directs special projects.

### Benefits Processing Section

This Section is charged with responsibility for calculating and paying monthly retirement allowances to beneficiaries and refunds of accumulated contributions to terminated employees. In addition, the staff in this Section handles the calculations of the cost for retirement systems' members to purchase additional service credits (e.g. military service, out-of-state service, and repayment of service forfeited on account of refunds of member contributions).

### Accounting/Data Control Section

One major responsibility of this Section is receiving and processing payroll contribution reports from over 1,500 participating State and local units of government. Contribution information from these payroll reports is electronically posted to the individual accounts for about 370,900 members. Maintaining the accounting records for the Retirement Systems is also the responsibility of this Section.

A brief description of the other functions performed by this Section are as follows:

**Retiree's Insurance** Receipt and processing of enroll-

ment applications and coverage change requests for the more than 64,000 retirees.

**EFT Accounts/Address Changes** Receipt and processing of Electronic Funds Transfer account application and changes to EFT accounts. Over 40,000 retirees' benefits are processed through EFT. Also all address change requests for retirees are processed in this Section.

**Batch Posting and Systems Transfers** Depositing and recording of special member contributions and transfer of funds between systems.

**Error Checking** Correction of errors detected by computer edit in the processing of employers' payroll reports. Over 80,000 errors are detected and corrected in a typical year.

### Member Services Section

This Section handles written and telephone communications with members and employers participating in the retirement systems, and other benefit programs, responding to myriad questions about fringe benefits. Accordingly, during the past year approximately 39,000 letters were written in this Section and approximately 202,000 telephone communications were handled. In addition, annual pre-retirement planning seminars are conducted by the staff of this Section, as well as retirement and fringe benefit conferences at the request of employers and employee associations. All visitors to the Division requiring individual counseling about their benefits are referred to this Section. More than 6,000 persons were interviewed during the past 12 months.

Another important function of this Section is coordinating the participation of local government employers electing to become members of the Local Governmental Employees' Retirement System. This involves meetings with local governing bodies, collecting data for transmission to the Actuary, enrollment of eligible employees and explanation of monthly reporting procedures. Ancillary to this function is assistance to local governments in the adoption of tax shelter and death benefit coverage agreements.

### Records Section

This Section maintains custody of and updates all member and employer record files. An on-going function of this Section is the duplication of members' files into a microfiche system, and the conversion, as a long-term project, of members' and beneficiaries' files to the microfiche-based records system.

### Disability Section

This Section is responsible for the administration and the determination of eligibility for disability benefits through the Systems' Medical Board as apply under the Disability Income Plan for teachers and State employees and the former provisions for disability retirement benefits under the Teachers' and State Employees' Retirement System. This Section is also responsible for the determination of eligibility for disability retirement benefits from the other retirement systems through the Systems' Medical Board.



This Section is responsible for the administration of the Contributory Death Benefit Plan for Retired Members including the notification of eligibility under the Plan, enrollment of members electing coverage, collection of the required contributions, and payment of the death benefits.

## Significant Accomplishments

### Legislation

Prior to the convening of the 1989 Session of the General Assembly, the Director and staff identified all proposals for benefit enhancements and changes recommended by the various associations of educators, employees and retirees. Cost estimates for the recommendations were acquired from the Division's consulting actuary. The staff then assisted the State Treasurer and the Retirement Systems' Boards of Trustees in the formulation of their legislative recommendations.

During the 1989 Session, the Director and staff provided technical assistance and bill drafting services for the standing Senate and House Committees on Pensions and Retirement and communicated the Boards of Trustees' recommendations. The staff also acquired, as provided by State law, actuarial notes disclosing the fiscal impact of every bill introduced which affected a State-administered retirement system or pension plan.

Recommendations of benefit enhancements by the Boards of Trustees for members of the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System which were acted upon favorably by the General Assembly were to (i) increase the Systems' defined benefit formula accrual rate from 1.60 % to 1.63 % and (ii) provide a 3.50 % increase in the retirement allowances of all beneficiaries of the several retirement systems, payable beginning July 1, 1989, for those in receipt of an allowance on July 1, 1988, and a prorated portion of the 3.50 % increase for beneficiaries who retired after July 1, 1988 but prior to June 30, 1989. As a result of the increase in the formula accrual rate, an additional 1.90 % increase, effective July 1, 1989, was provided for beneficiaries who retired prior to July 1, 1989. The cost of these amendments was covered by reserves from the unencumbered actuarial gains of the retirement systems.

On account of the decision of the United States Supreme Court in the case of Davis vs. Michigan Department of Treasury, the General Assembly was required to treat Federal and Military retirees in the same manner as State and local government retirees relating to State income tax. This resulted in legislation which removed the full State income tax exemption for persons in receipt of benefits from the several retirement systems. This exemption was changed to a \$4,000 per year exclusion from State income tax.

### Communications

The staff of the Member Services Section revised eight forms and developed five new forms for the use of members considering the purchase of various types of service credits as permitted by law. The forms provide

both an application for members to inquire as to the cost of a particular service credit and detailed information about eligibility requirements and purchase procedures. The forms were distributed to personnel and benefits officers of employers participating in the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems.

Subsequent to adjournment of the General Assembly, a digest of all legislative changes was provided to all employing units and employee associations. In addition, Divisional staff contributed various articles which were published in the publications of the State Employees' Association, the North Carolina Association of Educators, and the Retired Governmental Employees' Association.

The staff of the Member Services Section worked with the staff of the State Agency for Public Telecommunications in revising video programs to complement the audio-visual (sound/slide) programs previously utilized for several years by the State and Local Retirement Systems. These programs, which can be used by anyone to explain the basic benefits structure of those Retirement Systems, are especially suited to the informational requirements of members nearing retirement age. Videos and sound/slide programs are used in the Division's statewide pre-retirement counseling meetings which are publicized throughout the State by the press, radio and television. In the Spring of 1989, the Member Services staff conducted 38 of these meetings statewide with over 2,500 members in attendance. In addition to the Division's sponsored meetings, the staff also participated in over 50 other meetings, seminars, benefits fairs and conferences relating to retirement benefits, excluding PREPARE workshops.

The Division continued its joint venture with the Office of State Personnel and the community college system in the PREPARE workshop program. This program covers legal, health, financial, housing and family aspects as they pertain to retirement. 105 PREPARE workshops were conducted during the past year with more than 2,600 employees in attendance.

### Functional

For the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System, the Division's Benefits Processing Section paid 18,517 refunds of contributions to members who had terminated covered employment and 5,381 new monthly retirement allowances.

Progress continued to be made in the on-going conversion activities in the Division. In the Records Section, the file folders of approximately 4,500 retirees with the Teachers' and State Employees' Retirement System were converted to microfiche mode.

The Division continued a program to contact vested deferred members who were eligible for retirement benefits as a result of legislation which was enacted into law by the 1987 Session of the General Assembly which permitted the retirement systems to have access to the mailing addresses of members from other State



departments and agencies. By obtaining access to the address computer records of the Department of Revenue, the division was able to notify members of their eligibility for retirement benefits.

In the Local Governmental Employees' Retirement System, 22 local governments elected to become participating employers with the System. The participation of these employers involved the staff of the Member Services Section in meeting with their governing bodies and employees, acquiring pre-valuations from the consulting actuary as to an employer's contribution rate and providing all legal documents and agreements for their execution.

The Division utilizes several methods of obtaining information about the deaths of benefit recipients. With more than 80,000 monthly recipients, many opportunities for fraud exist, especially in cases where the check or deposit is remitted out-of-state. This year the Division contracted with a national firm that has a computer data base containing information about some 34 million deceased persons. That firm matched our benefit recipient computer tape with their death record tape. The results revealed that six retirees with monthly benefit payments totaling \$3,427.43 were deceased. Subsequent investigation verified the reported deaths and revealed that unauthorized persons were appropriating the proceeds from these benefit payments. Immediately upon verification of the reported deaths, the monthly payments were terminated and action begun to recover some \$100,000 paid out since the deaths of those six retired members.

The Division developed and implemented an electronic file retrieval system providing "on-line" computer capability for the staff to request members' microfiche records from the Records Section. This is accomplished through use of the computer terminals. If a record has been previously requested, the new system so indicates along with the name of the employee who has the record, the date it was requested, and the reason. As a member's record flows through the various handling points or sections, the system is updated so that at any given time, its location can be determined. Use of the new system has resulted in (i) quicker response time on correspondence, (ii) less time spent locating members' records, resulting in more efficient use of personnel, and (iii) better control of permanent records.

In the area of accounting, a computer-driven general ledger program was implemented. This program allows greater speed in processing data and greater access to financial reporting than was previously available. Also, special emphasis was placed on requesting employers to report data to the Retirement System using electronic media. Receiving data by way of electronic media allows faster posting to individual members' accounts.

## **The Retirement Systems and Trust Funds**

### **Actuarial Valuation**

The actuarial valuation is prepared by an actuary to assess the funding progress of a retirement system and

the adequacy of the contribution rates which have been established to fund the system. An actuarial valuation is an inventory of the assets and liabilities of a retirement system at a specific point in time. Information collected covers all of the active (both in-service and terminated) members and all of the retired members and other beneficiaries who are receiving benefit payments. In this way, everyone who has been promised a benefit from the system is included in the actuarial calculations to determine the present value of the system's liabilities. These liabilities are then compared to the system's assets, and calculations are made to determine whether the contribution rates will be adequate to fund the uncovered liabilities in the time period originally established. Annual valuations are made so as to permit gradual changes in the contribution level and/or funding period and keep the funding on a proper course. The annual valuation is also used by the actuary to compare actual separation, compensation and investment experience with the actuarial assumptions used in the valuation of the liabilities of the system. The actuarial valuation balance sheets for each retirement system are included with the tables.

### **Actuarial Assumptions**

The economic assumptions used for the actuarial valuation of all retirement systems are an interest rate of 7½ % per year and average rates of salary increase of 7½ % per year, varying at different ages. The assumed rates for mortality, withdrawals, disabilities and service retirement are based on actual past experience. The asset valuation method is based on cost value.

### **Funding of the System**

The retirement systems described in this report, except the Legislative Retirement System, are being funded on a full actuarial reserve basis and use the entry age normal cost method as the actuarial cost approach. Under the entry age normal cost method, the normal contribution percentage rate is calculated on the basis of the adopted actuarial assumptions as the level percentage of the compensation of the average new member which, if contributed throughout the entire period of active service, would be sufficient, together with his contributions, to support all the benefits payable on his account. The accrued liability is the difference between total liabilities and the present value of future normal cost contribution and the members' future contributions. All experience gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation, except the Local Governmental Employees' Retirement System where they are reflected in the normal contribution rate. The Legislative Retirement System is also being funded on a full actuarial reserve basis, but uses the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach.

All retirement systems are joint contributory defined benefit plans with contributions made by both employees and employers. Each active member contributes six percent (6%) of his compensation for



creditable service by monthly payroll deduction. The only exception to this member contribution rate is the Legislative Retirement System to which each active member contributes seven percent (7%) of his compensation. Employers make monthly contributions based on a percentage rate of the members' compensation for the month. Employer contribution rates are actuarially calculated.

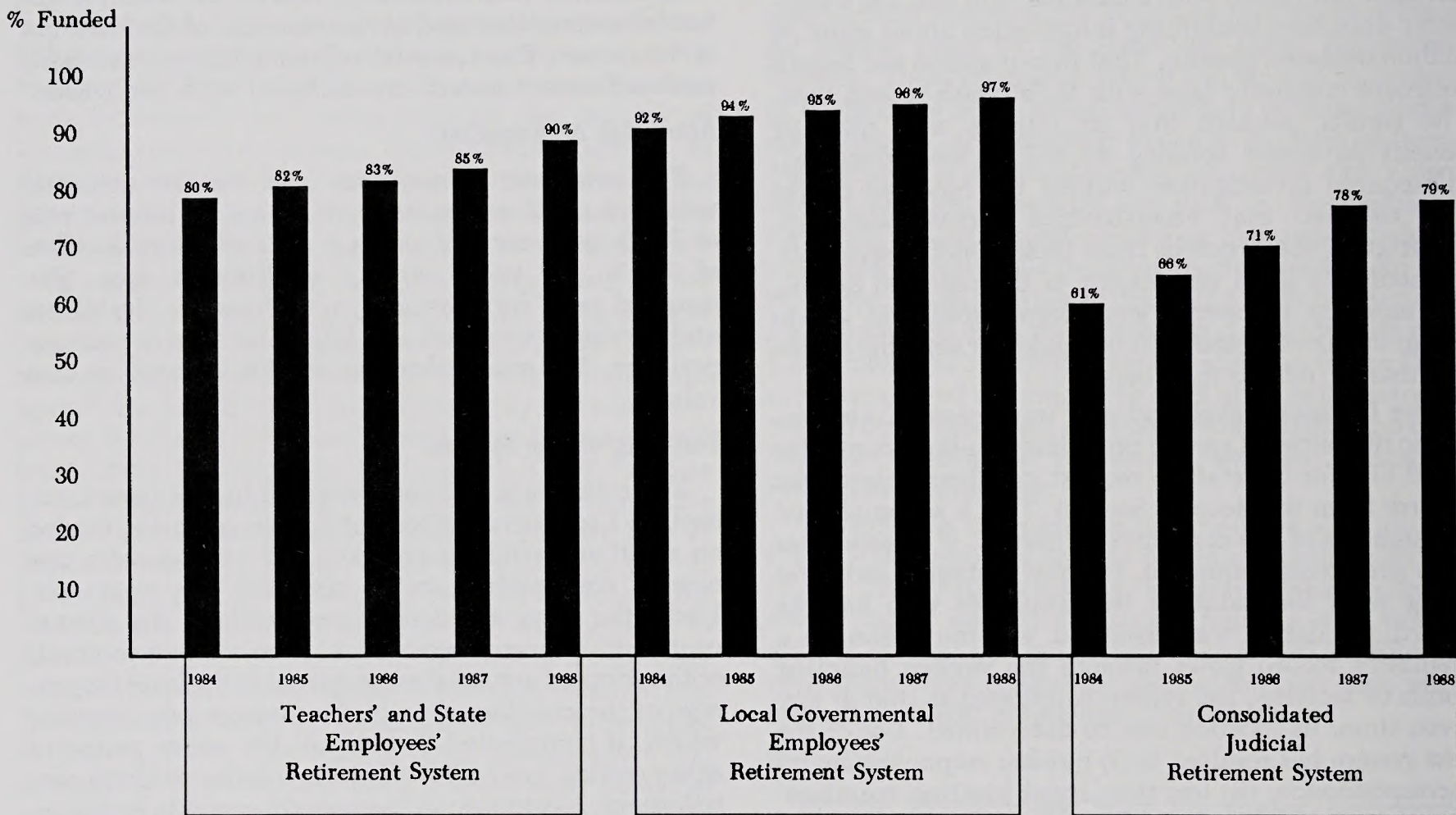
**Funded Status of the Retirement Systems**

The consistent use of conservative actuarial assumptions and an approved actuarial cost method over the years since the establishment of the retirement systems, and the recognition of all promised benefits in the ac-

tuarial liabilities, have resulted in retirement systems which can be labeled as "actuarially sound." A simple measure for determining the funded status of a System is to relate the total present assets to total accrued liabilities to determine a funded ratio. The total accrued liabilities are found by adding the assets and the unfunded accrued liabilities. For purposes of comparison, the funded ratios for the major retirement systems are graphically illustrated in Chart 19. When the ratio equals 100%, a system is considered to be "fully funded" on a current basis. At that time, the employer will make only the normal (current service) contributions.

Chart 19

**FUNDED RATIO  
OF THE RETIREMENT SYSTEMS**





Teachers' and State Employees'  
Retirement System of North Carolina  
(State System) N.C.G.S. 135-1  
Through 135-18.5

The State System has the largest assets and membership of the retirement systems administered by the Division. The System provides benefits to all full-time teachers and State employees in all public school systems, universities, departments, institutions, and agencies of the State. The General Assembly created the Teachers' and State Employees' Retirement System effective July 1, 1941.

This System began operations with a membership of 42,878 teachers and State employees, and with appropriations from the State of \$1,838,000. The membership of the State System has grown over the years in proportion to the growth in size and complexity of the public schools and the State government. The active membership of the State System at December 31, 1988 was 265,781 and in addition there were 63,814 retired members and beneficiaries of deceased retired members, and invested assets of about \$11.3 billion.

The distribution of the investments of the assets of the State System as of December 31, 1988 was:

Distribution of Investments  
December 31, 1988

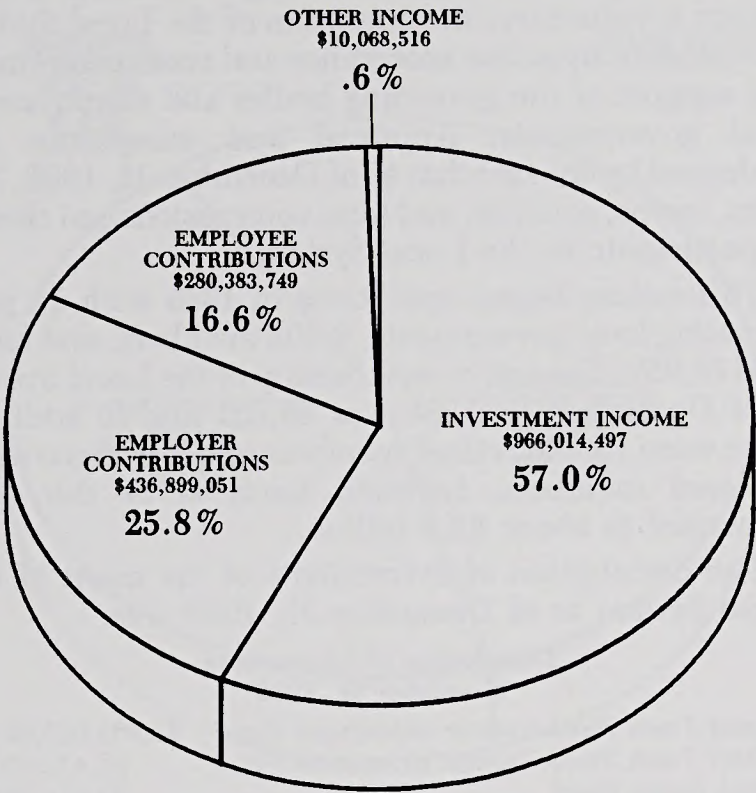
Long-Term Fixed Income Investment Fund	\$ 8,219,337,614
Short-Term Fixed Income Investment Fund	100,095,988
Real Estate Investment Fund	150,259,578
Equity Investment Fund	2,865,389,473
Total	<u>\$11,335,082,653</u>

Operations of the State System during the calendar year 1988 resulted in total receipts of \$1,693,365,813 and total expenditures of \$505,795,944. Chart 20 graphically presents the distribution of revenues by source and expenditures by purpose.

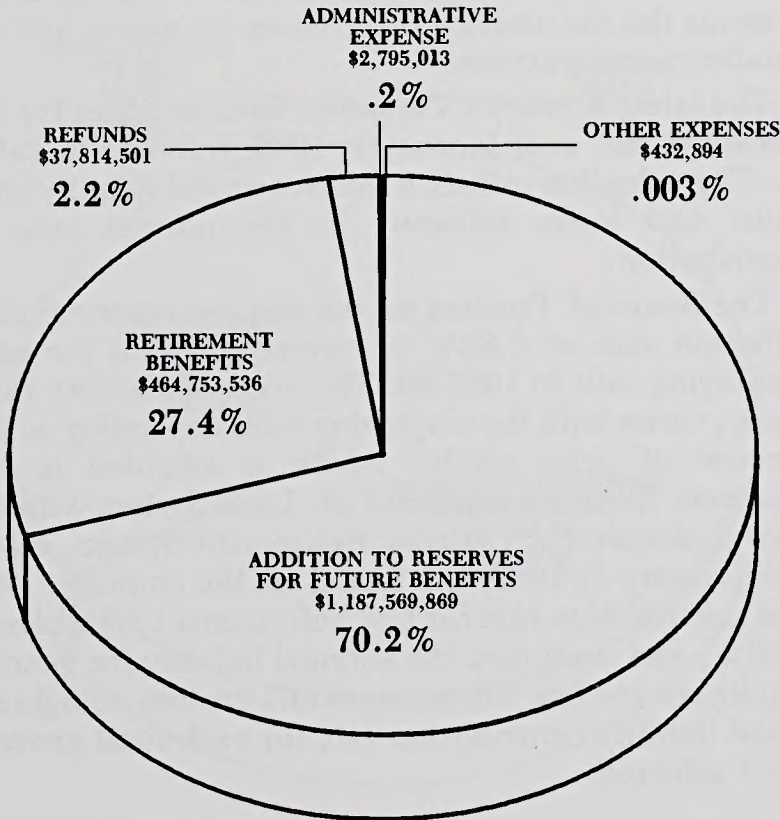
The latest Actuary's Valuation Balance Sheet for the State System as of January 1, 1989 is shown in Table 10. Based on the previous and latest actuary's reports, the Board of Trustees set the employer contribution rate at 9.35% of covered members' payroll effective January 1, 1988 and continued the same rate effective July 1, 1988. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, based on current service, and to fund, over a period of 13 years from January 1, 1989, the remaining accrued liability for past service.

Chart 20  
Teachers' and State Employees' Retirement System  
of North Carolina  
Year Ended December 31, 1988

Sources of Funds



Applications of Funds





North Carolina Local Governmental  
Employees' Retirement System  
(Local System)  
N.C.G.S. 128-21 through 38

The Local System is maintained for the employees of cities, towns, counties, boards, commissions, and other entities of local government in North Carolina.

Because participation of local governments in this System is voluntary, the operation of the Local System is dependent upon the acceptance and continuing financial support of the governing bodies and employees of local governments. Approval and acceptance are evidenced by the fact that as of December 31, 1988, 702 cities, towns, counties, and local commissions had chosen to participate in the Local System.

This system began operations in 1945 with 18 participating local governments, 2,102 members, and assets of \$178,053. The active membership of the Local System as of December 31, 1988 was 89,351 and in addition there were 15,423 retired members and beneficiaries of deceased members. Invested assets as of this date amounted to about \$2.5 billion.

The distribution of investments of the assets of the Local System as of December 31, 1988 was:

Distribution of Investments  
December 31, 1988

Long-Term Fixed Income Investment Fund	\$1,803,993,054
Short-Term Fixed Income Investment Fund	28,432,930
Real Estate Fund	33,011,288
Equity Investment Fund	632,127,857
	<u>\$2,497,565,129</u>

Operations of the Local System during the year 1988 resulted in total receipts of \$398,730,129 and total expenditures of \$109,084,388. Chart 21 graphically presents the distribution of revenues by source and expenditures by purpose.

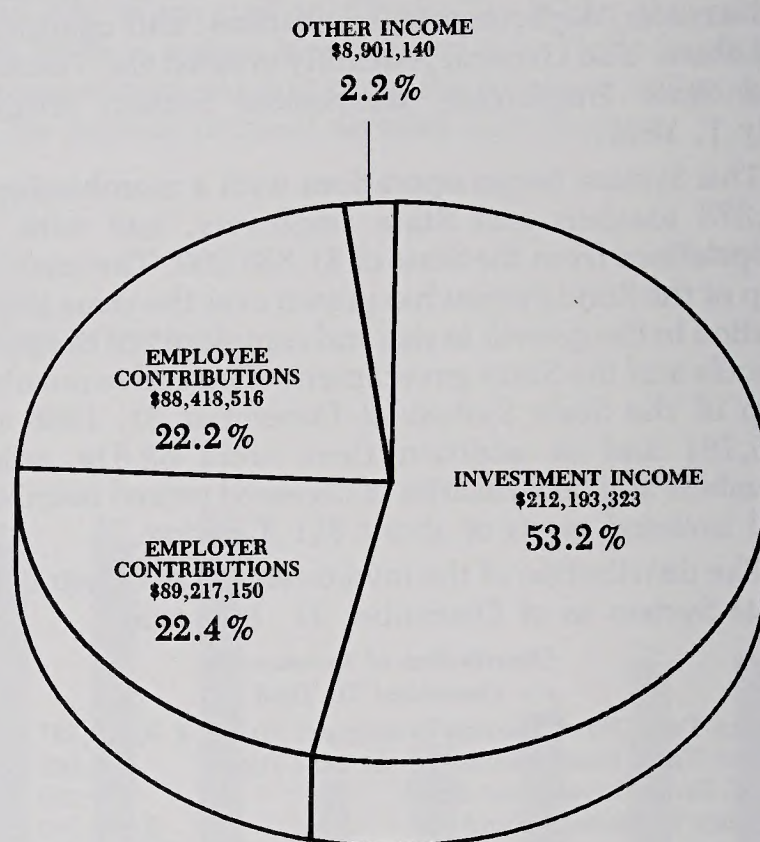
The latest Actuary's Valuation Balance Sheet for the Local System, as of January 1, 1989, is shown in Table 11. The valuation utilizes a frozen accrued liability with gains and losses reflected in the normal rate of contribution.

The Board of Trustees set the employer normal contribution rate of 4.63% of covered payroll for each employing unit in 1988-89. The accrued liability rate, if any, varies with the employing units depending on the amount of prior service which is awarded to the members. With the merger of the Local System with the Law Enforcement Officers' Retirement System, effective January 1, 1986, the Board set the employer normal contribution rate for law enforcement members at 5.10%, and combined the accrued liability for general employees and law enforcement officers into a single accrued liability contribution rate for each local government affected.

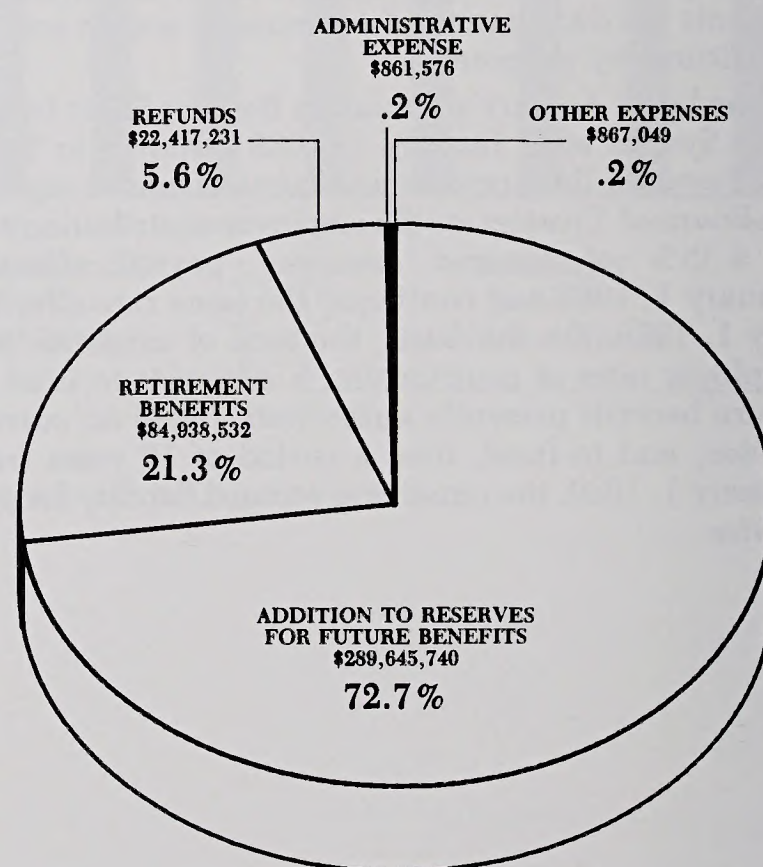
Chart 21

North Carolina Local Governmental Employees'  
Retirement System  
Year Ended December 31, 1988

Sources of Funds



Applications of Funds





Consolidated Judicial Retirement System  
of North Carolina (Judicial System)  
N.C.G.S. 135-50 through 135-72

The Judicial System was created by the 1983 Session (Regular Session, 1984) of the General Assembly effective January 1, 1985. This System was formed by combining the previously existing Uniform Judicial, Uniform Solicitorial and Uniform Clerks of Superior Court Retirement Systems. The Courts Commission was responsible for the design of the benefit structure of the previous systems, which was carried forward to the new consolidated system.

The membership of the Judicial System is composed of the elected judges and justices, solicitors and district attorneys, and clerks of superior court of the General Court of Justice. As of December 31, 1988, there were 422 active members and 245 retired members and beneficiaries of deceased retired members. The invested assets at that time were about \$78 million.

The distribution of the investments of the combined Judicial System as of December 31, 1988 was:

Distribution of Assets  
December 31, 1988

Long-Term Fixed Income Investment Fund	\$56,324,530
Short-Term Fixed Income Investment Fund	1,541,378
Real Estate Investment Fund	1,026,837
Equity Investment Fund	19,616,688
Total	<u>\$78,509,433</u>

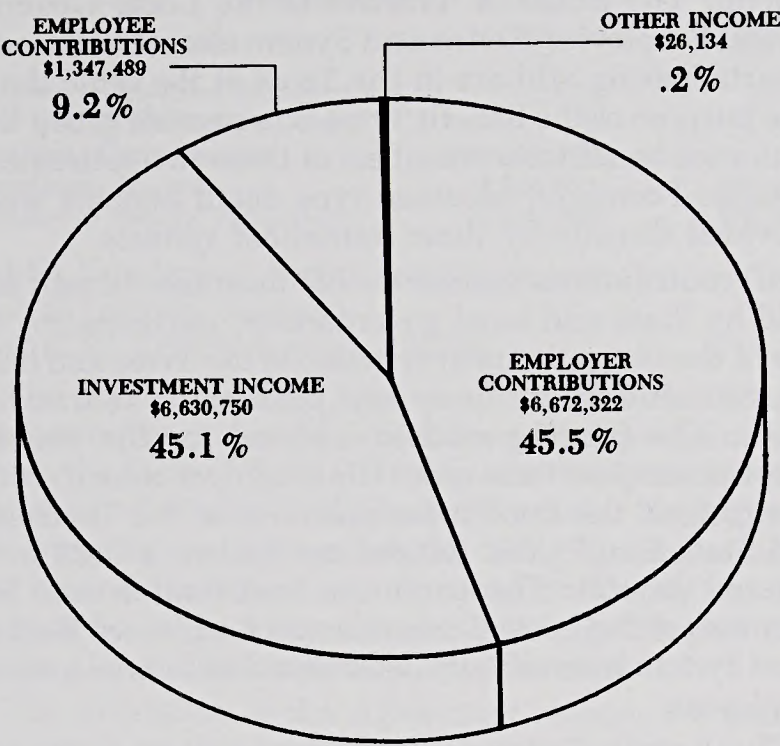
Operations of the Judicial System during the calendar year 1988 resulted in total receipts of \$14,676,695 and total expenditures of \$5,059,795. Chart 22 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the Judicial System as of January 1, 1989 is shown in Table 12. Based on the actuary's report, the Board of Trustees set the employer contribution rate at 29.71 % of covered members' payroll effective January 1, 1989. On this basis, the total of member and employer rates of contribution is adequate to fund all future benefits presently authorized based on current service and to fund, over a period of 16 years from January 1, 1989, the remaining accrued liability for past service.

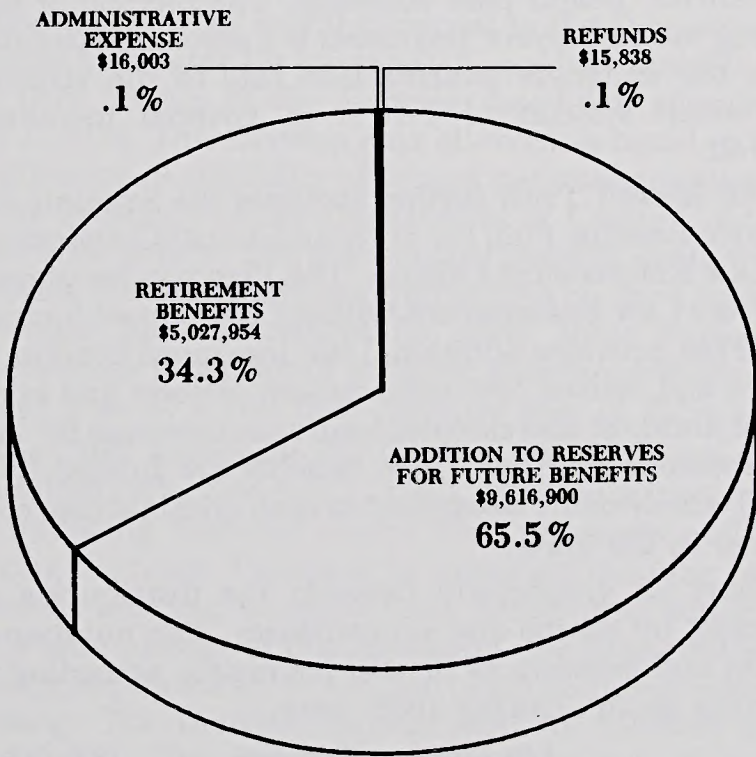
Chart 22

Consolidated Judicial Retirement System  
of North Carolina  
Year Ended December 31, 1988

Sources of Funds



Applications of Funds





**Teachers' and State Employees' Benefit Trust  
(Benefit Trust)**  
N.C.G.S. 135-5(1); 128-27(1); 143-166.02; and  
143-166.60

The Benefit Trust was established January 1, 1980, after enabling legislation was enacted in the 1979 Session of the General Assembly, by the Board of Trustees of the Teachers' and State Employees' Retirement System. The Board of Trustees of the Local Governmental Employees' Retirement System elected to become a participating affiliate in the Trust at the same date. The purpose of the Benefit Trust is to provide group life insurance benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems.

All contributions to fund the life insurance benefit are paid by State and local governments, participating in one of the two retirement systems, to the Trust and held separate and apart from any pension or retirement funds. The funding method adopted for the Benefit Trust is one-year term cost. The employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System is 0.22% of covered payroll. The employer contribution rate for members of the Local Governmental Employees' Retirement System is actuarially determined and varies among employers.

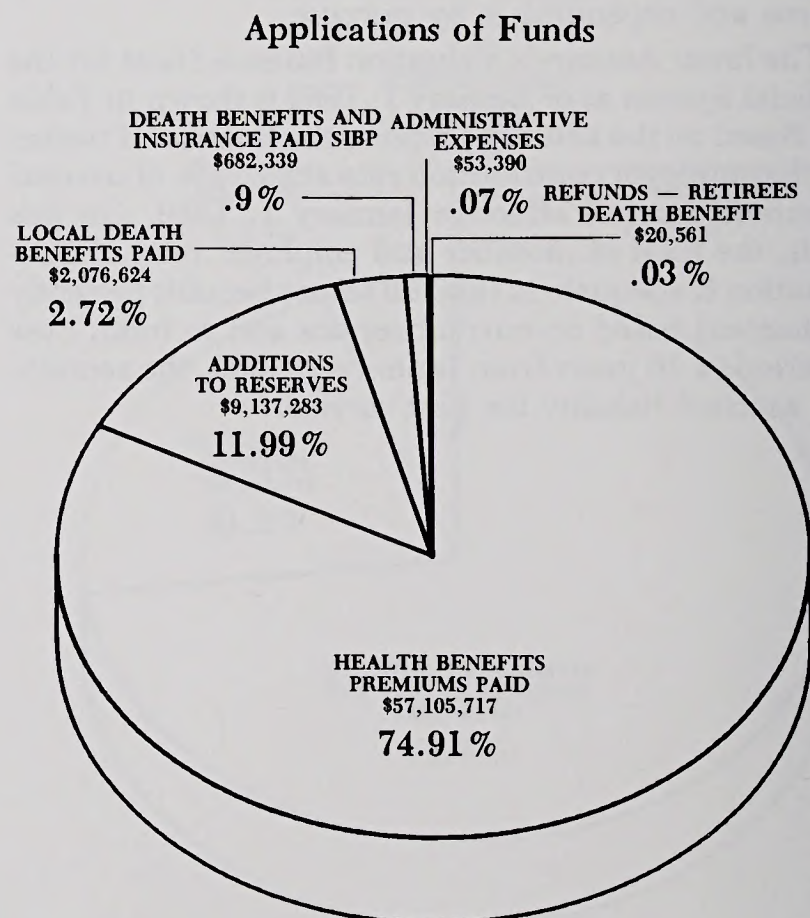
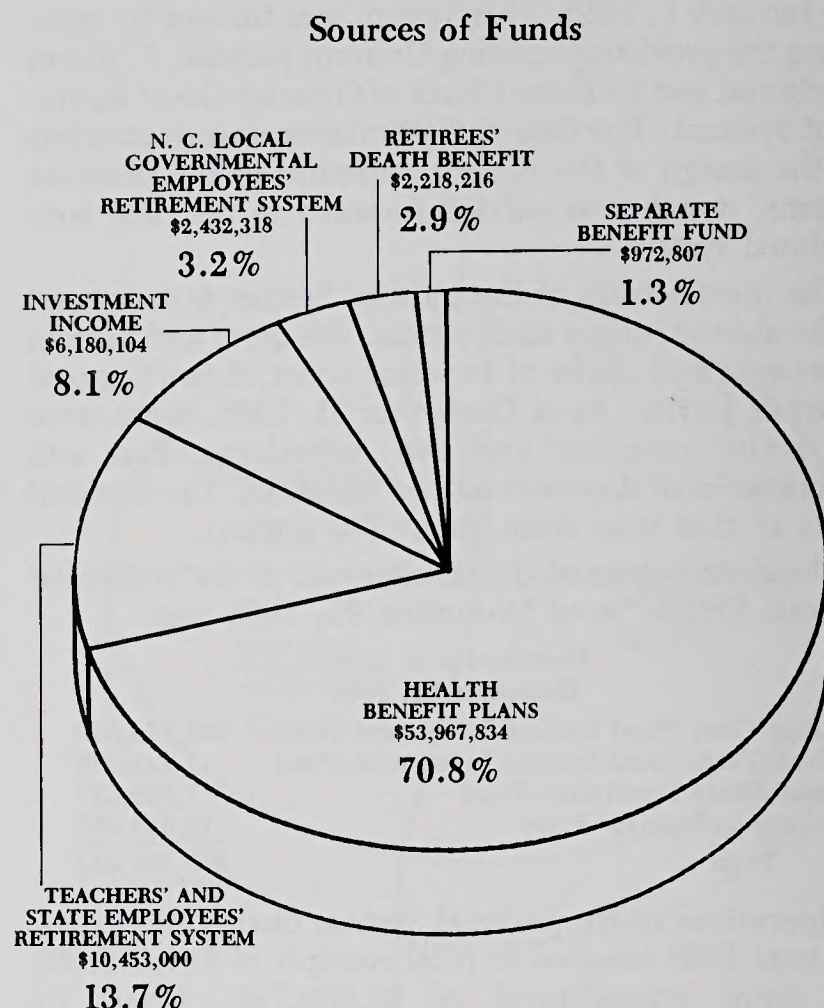
The Benefit Trust also includes funding of the individual coverage cost for retirees who retired with the Teachers' and State Employees', Consolidated Judicial and Legislative Retirement Systems under either the State's health plan or approved Health Maintenance Organizations. This function is simply the conduit of moneys flowing from employers into the Trust to pay for retirees' health plan coverage. The method of collecting the employers' payments is a surcharge payable with the employer contribution rate to the affected retirement systems of 1.10% of covered members' payroll.

The Benefit Trust further includes the Separate Insurance Benefits Plan for State and Local Governmental Law Enforcement Officers. This Plan was transferred from the Law Enforcement Officers' Retirement System. The Plan provides additional life insurance benefits to active and retired law enforcement officers and additional accident and sickness insurance coverage for law enforcement officers. These benefits are funded by a \$1.00 cost-of-court assessment in each criminal case conviction in the State.

Chart 23 graphically presents the distribution of revenues by source and expenditures. The number of deaths and amounts of benefit payments, according to member group, during 1988 were:

Life Insurance Payments Calendar Year 1988		
Retirement System Membership	Number of Payments	Amount
Teachers' and State Employees'	413	\$6,867,006
Local Governmental Employees'	131	1,985,514

Chart 23  
**North Carolina Teachers' and State Employees'  
Benefit Trust**  
Year Ended December 31, 1988





**Legislative Retirement Fund (Fund)**  
**N.C.G.S. 120-4.1 through 120-4.2**

The Fund was created by the 1969 Session of the General Assembly as a retirement plan for members and elected officers of the North Carolina General Assembly. The Fund was abolished, prospectively, by the 1973 Session (Second Session 1974). The abolishing Act preserved the vested and inchoate rights of the members in the Fund so that all members and former members of the General Assembly who had qualified by virtue of service as of 1974 are still in receipt of monthly allowances or may apply for and receive monthly allowances at age 65. There were 53 former members and officers of the General Assembly in receipt of allowances with a cost in the year ended December 31, 1988, of some \$86,700. The cost is funded by a contribution of 5% of compensation paid by members at retirement and an annual general fund appropriation made to the General Assembly. The Fund is not operated as a retirement fund, but as an expendable trust fund.

**Legislative Retirement System (System)**  
**N.C.G.S. 120-4.8 through 120-4.29**

The Legislative Retirement System was created by the 1983 Session of the General Assembly as a retirement plan for members of the General Assembly. The membership also included members who were vested or had maintained member contributions in the Legislative Retirement Fund and those retirees receiving a benefit from the Legislative Fund and who elect to transfer to the Legislative Retirement System.

As of December 31, 1988, the System had 164 active members, 37 inactive members and 48 retired members. Assets on that date totalled \$3,694,702. Operations of the System during calendar year 1988 resulted in total receipts of \$1,106,509 and disbursements of \$177,540 with \$928,969 added to the reserve for future benefits.

Based on the latest and previous actuarial reports, the employer contribution rate was set at 42.76% of covered members' payroll effective July 1, 1988. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, and to fund, over a period of 5 years from January 1, 1989, the remaining accrued liability for past service.

**Disability Salary Continuation Plan (DSC Plan)**  
**N.C.G.S. 135-34**  
**Disability Income Plan**  
**N.C.G.S. 135-100 Through 135-113**

The provisions governing the Disability Salary Continuation Plan were repealed effective January 1, 1988 and replaced by the provisions governing the newly created Disability Income Plan. All benefit recipients of the former Disability Salary Continuation Plan became beneficiaries of the new Disability Income Plan under the same provisions, conditions and benefit amounts as previously payable. Both Plans are self-insured and are administered by the Division. The employer contribution rate to fund this benefit is 0.52% of the covered payroll of members of the Teachers' and State

**Employees' Retirement System and the Optional Retirement Program.**

The following are certain statistics relating to the number of disabled members, number of new claims, the claims closed during the year, investment earnings and amount of benefit payments during the calendar years ended 1988 and 1987:

	Selected Statistics For the Calendar Years	
	1988	1987
Number of Disabled Members	1,511	1,331
New Claims During the Year	8	609
Employer Contributions	\$25,348,129	\$ 0
Investment Income	1,088,911	309,227
Amount of Benefit Payments	2,470,708	2,700,893

**Public Employees' Social Security Agency**  
**(Social Security Agency)**  
**N.C.G.S. 135-19 through 135-26**

The Social Security Agency administers the State's responsibility under the Social Security Agreement between the State of North Carolina and the United States Secretary of Health and Human Services. This Agreement was entered into on July 16, 1951. This Agreement was executed pursuant to authority in Section 218 of the Federal Social Security Act and Article 2, Chapter 135 of the General Statutes of North Carolina.

The provisions of the Agreement require the Social Security Agency to provide the mechanics of coverage for the State and its qualified political subdivisions and to act as liaison between the State and the Social Security Administration.

**National Guard Pension Plan**  
**(Guard Plan)**  
**N.C.G.S. 127A-40**

The Guard Plan was transferred to the Department of State Treasurer for payment of monthly benefits by the 1979 Session of the General Assembly, effective July 1, 1979. This Division pays allowances based on the certification of eligibility of former national guardsmen by the Secretary of the Department of Crime Control and Public Safety. The payments of benefits are funded by State General Fund appropriations by the General Assembly. As of December 31, 1988, there were 766 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of \$754,987.

The 1983 Session of the General Assembly enacted legislation, effective July 1, 1983, creating a trust fund for financing National Guard Plan payments and requiring the State Treasurer to maintain the Plan on a generally accepted actuarial basis. Based on an actuarial study after passage of this legislation, the June 1984 Session appropriated \$1,717,977 to begin actuarial reserve funding. The funding appropriated for 1988-89 was \$1,800,000. The latest Actuary's Valuation Balance Sheet for the Plan as of January 1, 1989 is shown in Table 13.



**Supplemental Retirement Income  
Plan of North Carolina [401(k) Plan]  
N.C.G.S. 135-90 through 135-95; 143-166.30;  
and 143-166.50**

The 1983 Session (Regular Session, 1984) enacted enabling-type legislation creating the State's Internal Revenue Code Section 401(k) Plan effective as of January 1, 1985. The Plan is a voluntary tax deferred savings/investment program designed to supplement members' replacement income in retirement. The Plan is governed jointly by the State Treasurer and a Board of Trustees composed of members of the Boards of Trustees of the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems.

After a thorough competitive bidding process, the Board selected Branch Banking and Trust Company (BB&T) as the Plan's third-party administrator. BB&T is responsible, under the Plan document adopted by the Board and the terms of the contract with the Board, for all aspects of operating the Plan. This responsibility includes communications, recordkeeping and investment products.

The Plan's number of participating members increased from 38,033 as of July 1, 1988 to 48,541 members as of June 30, 1989 for an increase of about 28%. Contributions by employers during this fiscal year totaled over \$23,015,268 while salary deferred contributions by members were over \$23,553,411. The total assets, at book value, of the Plan increased by 39% to \$181,798,947.

The Plan offers four investment options for members. Members may select from a Guaranteed Income Contract, a Money Market Account and two mutual funds. As of June 30, 1989, 42.8% of the assets were invested in the Guaranteed Income Contract, 36% were invested in mutual funds and 17.3% were invested in the Money Market Account. In addition, 3.8% of the assets were loans receivable and 0.1% of the assets were cash on deposit.

A portion of court cost receipts are deposited into the account of each State and local government law enforcement officer. As of June 30, 1989, court cost receipts of \$3,094,019 were transferred and credited to the State and local law enforcement officers' accounts. In addition \$362,949 was transferred from the Sheriff's Supplemental Pension Fund and credited to local officers' accounts.

**Registers of Deeds Supplemental Pension Fund  
N.C.G.S. 161-50 through 161-50.5**

The Registers of Deeds Supplemental Pension Fund was created by the 1987 Session of the General Assembly for the purpose of providing a supplement to Local Governmental Employees' Retirement System benefits for Registers of Deeds. The stated purpose of the Act was to attract the most highly qualified talent available within the State to that county office. The Supplemental Pension Fund is administered by the Department of State Treasurer.

Each County Commission began October, 1987

remitting monthly to the Department of State Treasurer an amount equal to 4.5% of the monthly receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes for deposit to the credit of the Register of Deeds Supplemental Pension Fund. As of December 31, 1988, the Fund had total assets in the amount of \$863,357.

Benefits from the Fund became payable beginning July 1, 1988. As of December 31, 1988, the Fund had paid total benefits in the amount of \$81,168 to 35 retired Registers of Deeds.

**Contributory Death Benefit for Retired Members  
N.C.G.S. 120-4.27, 128-27 (12), 135-5(1), and 135-64(g)**

The Contributory Death Benefit for Retired Members was created by the 1987 Session of the General Assembly as a fully contributory death benefit plan for retired members of the Teachers' and State Employees' Retirement System, the Legislative Retirement System, the Consolidated Judicial Retirement System, and the Local Governmental Employees' Retirement System, effective July 1, 1988. The Contributory Death Benefit is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. The contributions of retired members electing coverage are placed in the Contributory Death Benefit Trust.

**Selected Statistics  
For the Calendar Year**

	<u>1988</u>
Enrollment	15,822
Contributions	\$2,218,217
Investment Income	100,810
Payouts (Death/Cancellations)	20,561



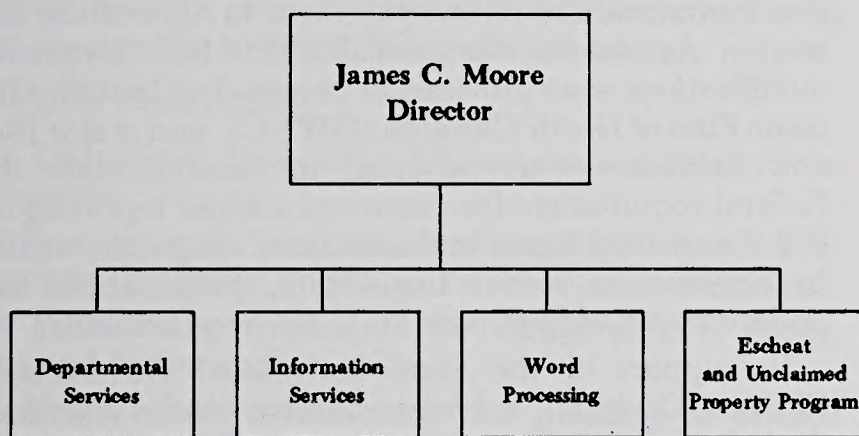
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# Administrative Services Division

The Administrative Services Division is organized to provide support services to the State Treasurer and the program divisions within the Department; and to administer the State's Escheat and Unclaimed Property Program.

## Table of Organization



## Operational Highlights

- \$4,650,504 in net investment earnings from the Escheat Fund was remitted to the State Education Assistance Authority to provide loans to North Carolina students in State-supported schools of higher education.
- \$9,569,638 in escheat and unclaimed property was received from 2,388 holders.
- \$1,684,807 was refunded to 3,403 individual owners of escheated and unclaimed property.
- On-line data entry systems were developed for the Administrative Services Division and the Investment and Banking Division.
- Antiquated computer hardware and an obsolete key-to-disk data entry system were replaced.
- Personal Computers were installed to replace obsolete word processing equipment.

## Departmental Services

Departmental Services provides general support to the Department in areas of personnel management, budget operations and mail and supply room/purchasing functions. In addition, technical assistance is also provided for special projects such as cost-benefit studies, manage-

ment audits and preparation of supplementary technical reports and studies.

**Personnel Management:** The Department has continued to participate in the Model Cooperative Education Program for the fifth year in a row. The MCEP has increased our pool of qualified protected group job applicants in professional areas, i.e., black accountants, female auditors, etc. This program has contributed to our Affirmative Action efforts.

The Work Planning and Performance Review System, approved by the General Assembly and developed by the Office of State Personnel, has been implemented by the Department of State Treasurer for the purpose of awarding performance increases to deserving employees.

On June 30, 1989 the Department of State Treasurer had 231 positions. During the past year, 23 employees were promoted and 25 new employees were hired.

**Budget Operations:** This area is responsible for insuring that the Department operates within its allotted budget from which all departmental expenses must be paid. The operating budget for the 1988-89 fiscal year was \$11,994,000. Of this amount, \$7,845,000 or 65% was receipt supported and required no general fund appropriations.

**Mail Room and Supply/Purchasing:** New control features were implemented for the purchase of new departmental equipment. All requests for the purchase of new office equipment must first have the written approval of the Division Director before submission to the Purchasing Officer. This insures proper utilization of equipment and prevents duplicate orders.

**Technical Assistance:** The principal activity during the year was the enhancement of the Investment Accounting System (IAS) for the Investment and Banking Division. A substantial part of this work included research into the various problems encountered and working with the staff of the Investment Accounting Section to correct identical problems. In addition the following subprojects were performed:

1. Research to determine how the Report Generator module could be used to enhance periodic reporting;
2. Specification of several enhancements to make IAS more "friendly" to the traders;



3. Enhancement of the system to facilitate the accounting account for GNMA securities.
4. Specification of the procedures to use IAS to account for the collateralization program; and
5. Specification of the proper yield calculation of Medium Term Notes (MTN).

Other projects included work on the suitability of optical scanners for processing retirement reports (quality is not yet good enough) and work on the project to replace dedicated word processors with personal computers.

Only one set of Administrative Procedures Act rules was handled - rules on Contributory Death Benefits for Retired Members for the Retirement Systems Division.

Comments on the following documents were completed and submitted with the assistance of other staff members:

Discussion Memorandum - The Financial Reporting Entity

Discussion Memorandum - Measurement Focus of Governmental Business - Type Activities or Entities

Exposure Draft - Report Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.

Exposure Draft - Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.

Pilot Study on the Financial Reporting Entity.

Assistance was provided to the Budget Officer on the year-end closing for 1987-88 and the Biennial Budget for 1989-91.

## Information Services

The Information Services Section functions as a self-sufficient support organization that provides automated services to each Division within the Department. The Section utilizes both mainframe and personal computer hardware to provide services in the areas of application development, computer operations, data coordination, central data entry, system software support, training, and librarian functions.

The primary goals and emphasis of this Section have been to: (1) develop, implement, and support quality automated systems as directed by the Divisions that are served, and (2) ensure that information resources are utilized in the most efficient and cost-effective manner. Inherent in the responsibility to provide automated applications support, most on-going systems require continuous review, modification, and enhancement to meet changing programmatic needs. While dozens of requests for minor to moderate change are responded to, major applications and enhancements are continuously being developed.

In support of the Administrative Services Division, an on-line entry and maintenance system of owner and holder properties was completed for the Escheat and Unclaimed Property Program. Also, a system to process Escheat refund checks was established utilizing personal computers, and an initial study was completed in preparation for developing an on-line refund tracking system.

The Investment and Banking Division is using a newly developed system that provides immediate access to paid check information. The system further provides full inquiry and on-line file maintenance capability regarding stop payment data. On-going program development and maintenance support is also provided for the highly complex Investment Accounting System (IAS), as directed by the Division and the software vendor.

The Retirement Systems Division receives approximately fifty (50) calls daily from active Retirement system members requesting information on the amount of contributions paid by the member. A newly developed procedure provides immediate access to the requested information. Also, appropriate system modifications were made to accommodate cost of living and Retirement formula changes, increases in cost of hospitalization insurance, and refund payments to Agriculture Extension Agents for the period 1955-1963. Extensive modifications were provided to process the Disability Income Plan of North Carolina (DIPNC), and major files and databases were adjusted to accommodate the Federal requirement for name and address reporting on W2-P and 1099 forms and associated magnetic media. In response to recent Legislation, preparations are underway to address new State tax requirements.

In support of the State and Local Government Finance Division, a comprehensive study was conducted, and a new system was developed that consolidated and expanded the scope of two older systems to meet current and anticipated requirements. The new system utilizes personal computers working in harmony with our mainframe computer to calculate variable rates and requirements of State and Municipal Bond Issues, and supports the reporting and inquiry needs associated with the application.

As noted earlier, and concurrent with the delivery of systems and services to the Divisions, internal efficiency of Information Resources is an on-going challenge. To further ensure application integrity, a new security system was installed on the mainframe. To enhance staff productivity and reduce the response time for application development, high performance software development tools such as Easytrieve-Plus have been procured. To increase on-line data storage availability and application efficiency, newly developed purge standards have been implemented for the Investment Accounting Systems. To increase mainframe availability, unreliable, antiquated, and costly pieces of computer hardware have been released or replaced. Specifically, a high-maintenance card reader and key-punch machines were removed, and full on-line job scheduling is now employed. An older communications controller that fre-



quently malfunctioned was replaced. Each of these activities have produced significant immediate or longer term savings in recurring maintenance cost.

A key-to-disk data entry system on which the vendor would no longer assure that maintenance would be available has been replaced. Flexible, office-compatible hardware and software have been procured that will yield major cost savings and increased productivity. Also, maintenance contracts have been cancelled on virtually all video display stations and other selected components.

To further enhance end-user productivity, personal computer policies and guidelines have been developed that track responsibilities from the point of recognition of need through final implementation. Issues addressed include procurement, installation and maintenance, office-standard software, training, technical support, and on-going research and development. These procedures initiate the realization that an organized approach to the administration of this expanding resource is fundamental to achieving the desired productivity goals.

Finally, the Information Systems Section has developed a comprehensive checklist of internal procedures and associated tools that are deemed necessary to support our overall mission. Items that are missing or incomplete are now being developed.

### Word Processing

The Word Processing Center was established to provide:

- Support in the preparation of statistical reports, procedures, manuals, graphs and written communications.
- Technical assistance in the design of new forms, revised forms and graphics.
- Preparation of final copy for printing of official statements, bond and note circulars, brochures, manuals, and forms.

During the past year it was necessary to replace all equipment within the Center with the newest innovation in personal computer technology. The new equipment enables the Center to meet the Department's increased volume of work and to provide greater capabilities in the area of producing graphs and charts.

### Escheat and Unclaimed Property Program

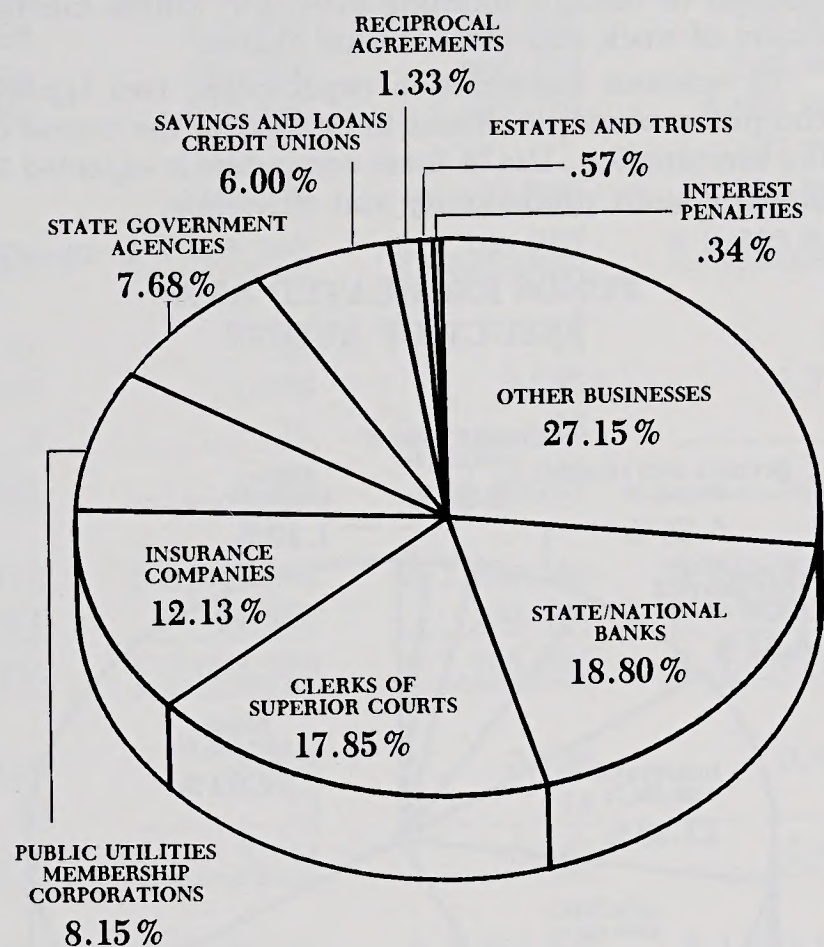
The Escheat and Unclaimed Property Program is charged with the dual responsibility of: 1) receiving unclaimed and abandoned moneys belonging to North Carolina Citizens; and 2) reuniting the moneys recovered with the rightful owners. The money received comes from financial institutions, businesses, public utilities, State agencies and offices of the Clerks of Superior Court (Chart 24), as a result of unclaimed savings accounts, uncashed checks, unclaimed utility deposits or unidentified remittances.

Until reunited with the owner, the money is invested and the earnings on the investments, minus any administrative expenses, are remitted to the State Educa-

tion Assistance Authority (SEAA). The SEAA utilizes this money to provide loans to worthy and needy North Carolina students in State-supported schools of higher education. The interest earnings on the investments remitted to the SEAA this year amounted to \$4,650,504 (Chart 26). Last year the interest earnings remitted provided low interest loans to 1,727 North Carolina students.

Chart 24

### FUNDS ESCHEATED Year Ending June 30





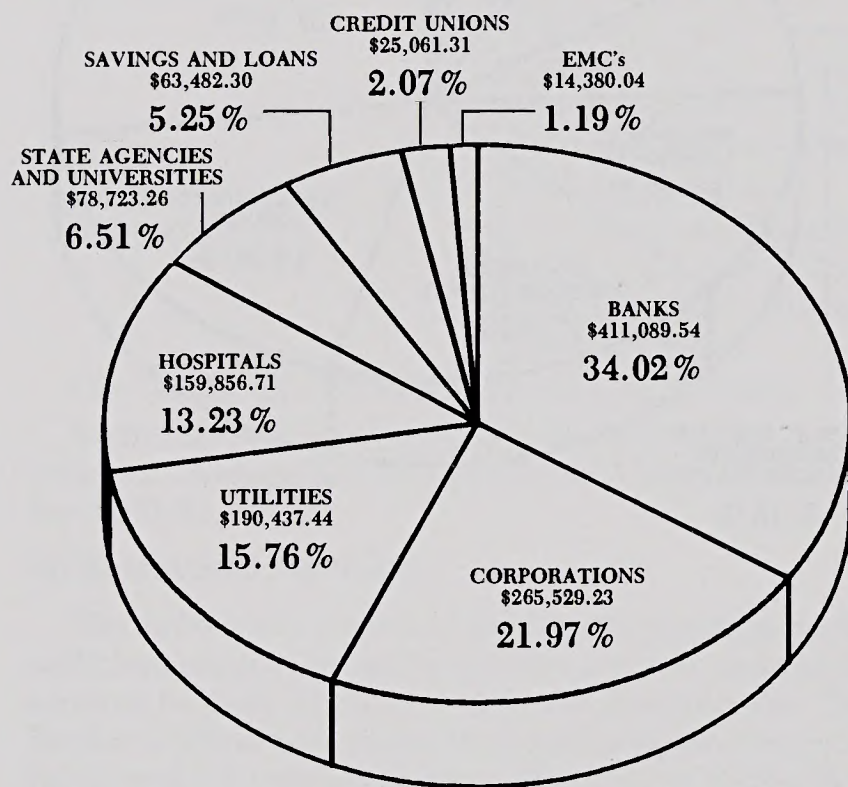
**Receipts:** As evidenced by the steady increase in receipts over the past several years, (Chart 26) the Escheat and Unclaimed Property Program has taken an aggressive posture on insuring that the State's escheat and unclaimed property laws are upheld.

During the past year, the four staff escheat auditors examined records of twenty-seven (27) holders. These holders included financial institutions, electric membership cooperatives, hospitals, corporations, utilities, and State agencies and universities (Chart 26). The audits resulted in total findings of \$1,199,560 of which \$972,174 has already been remitted. In addition compliance efforts (correspondence and telephone calls) have resulted in receipts totalling \$167,607, which include shares of stock and mutual fund shares.

To enhance examination capabilities, two lap-top computers were purchased to be used in the course of the examination. Use of these computers is expected to increase audit productivity and efficiency.

Chart 25

### FUNDS EXCHEATED AS A RESULT OF AUDITS



**Refunds:** The efforts to recover unclaimed property from the holders is matched only by those efforts to refund the property to the rightful owner. For the year ended June 30, 1989, \$1.8 million was refunded to the rightful owners. It is estimated that 60 % of the North Carolina citizens who had unclaimed property remitted to this office will receive a refund of that money. The balance of much of the money not refunded results from a lack of or insufficient addresses, or because property belongs to out-of-State residents.

Refund efforts were enhanced this year with the additional capability to perform social security number searches through a credit bureau that provides the Program with an individual's last known address. In addition, the North Carolina General Assembly enacted legislation that would allow the Program to obtain the last known address only of North Carolina citizens from the North Carolina Department of Revenue. These two new efforts, along with the traditional efforts of providing lists of names to the clerks of Superior Court and newspapers across the State, as well as name matches with the North Carolina Department of Motor Vehicles, should serve to greatly increase the number of refunds to owners.

**Tangible Personal Property:** The North Carolina Escheat and Unclaimed Property Program is also charged with the responsibility of receiving tangible personal property. Tangible personal property originates from several sources: safe deposit boxes, hospital patient safekeeping, estates, and even the North Carolina Zoo. This property is held for a period of one year during which time attempts are made to reunite the property with the rightful owners. After one year, the remaining property is sold at public auction, the proceeds of which go into the Escheat Fund. If at any time thereafter the rightful owner is found, he/she is entitled to the proceeds received from the auction.

Another source of tangible personal property are stock certificates. Stock is often submitted after dividend checks for the underlying shares of stock have escheated. Last year the value of the stock certificates received at June 30 amounted to \$1,412,740.

**Reciprocal Agreements:** North Carolina continues to be a frontrunner among the states with reciprocal agreements. At the present time, North Carolina has Reciprocal Agreements with 21 states and the District of Columbia. These agreements ensure that North Carolina will remit property belonging to citizens of another state to that state's Unclaimed Property Office, and that state in turn will remit unclaimed property to this office for owners from North Carolina. This year, as a result of reciprocal agreements, North Carolina received \$116,774 from 10 states and refunded \$150,631 to 14 states.



## ESCHEAT FUND FACT SHEET

	<u>FY7/1/1985</u> <u>6/30/86</u>	<u>FY7/1/1986</u> <u>6/30/87</u>	<u>FY7/1/1987</u> <u>6/30/88</u>	<u>FY7/1/1988</u> <u>6/30/89</u>
<b>Funds Escheated:</b>				
Estates and Trusts	\$ 30,644	\$ 51,560	\$ 21,022	\$ 54,024
Clerks of State Courts	1,343,629	1,114,059	1,683,833	1,708,607
State and National Banks	802,193	1,770,689	1,249,676	1,799,259
Savings & Loan Associations and Credit Unions	324,793	861,358	620,219	574,309
Insurance Companies	513,682	990,511	1,028,470	1,160,896
Public Utilities and Membership Co-ops	636,395	612,679	323,805	779,755
State and Governmental Agencies	728,494	852,065	869,439	735,267
Other Businesses	910,034	805,345	1,987,423	2,597,884
Reciprocal Agreements	(1)	(1)	(1)	127,378
Interest Penalties	N/A	N/A	11,199	32,259
<b>Total Funds Escheated</b>	<u><u>\$ 5,289,864</u></u>	<u><u>\$ 7,058,266</u></u>	<u><u>\$ 7,795,086</u></u>	<u><u>\$ 9,569,638</u></u>
Number of Reciprocal Agreements	11	16	19	22
Number of Positive Reports Received	1,853	1,779	2,083	2,378
Number of Reciprocal Reports Received	8	11	13	10
<b>Total Reports Received</b>	<u><u>1,861</u></u>	<u><u>1,790</u></u>	<u><u>2,096</u></u>	<u><u>2,388</u></u>
Amount of Funds Escheated	\$ 5,185,173	\$ 6,990,316	\$ 7,664,442	\$ 9,442,260
Amount Received from Reciprocal States	104,691	67,950	130,644	127,378
<b>Total Escheats Received</b>	<u><u>\$ 5,289,864</u></u>	<u><u>\$ 7,058,266</u></u>	<u><u>\$ 7,795,086</u></u>	<u><u>\$ 9,569,638</u></u>
Number of Refunds Paid	1,696	3,698	3,728	3,403
Number of Refunds to Reciprocal States	10	13	14	14
<b>Total Refunds Paid</b>	<u><u>1,706</u></u>	<u><u>3,711</u></u>	<u><u>3,742</u></u>	<u><u>3,417</u></u>
Amount of Refunds Paid	\$ 563,662	\$ 1,006,181	\$ 1,289,842	\$ 1,684,807
Amount Sent to Reciprocal States	56,316	86,629	100,045	150,631
<b>Total Amount Refunded</b>	<u><u>\$ 619,978</u></u>	<u><u>\$ 1,092,810</u></u>	<u><u>\$ 1,389,887</u></u>	<u><u>\$ 1,835,438</u></u>
Investment Income	\$ 3,596,145	\$ 3,934,305	\$ 4,565,072	\$ 5,331,556
Less Administrative Expenses	249,614	361,682	442,847	681,052
<b>Amount Remitted to SEAA</b>	<u><u>\$ 3,346,531</u></u>	<u><u>\$ 3,572,623</u></u>	<u><u>\$ 4,122,225</u></u>	<u><u>\$ 4,650,504</u></u>
# of Loans Made Available to Students	1,413	1,495	1,812	1,727
<b>Fund Balance</b>	<u><u>\$36,473,721</u></u>	<u><u>\$42,442,875</u></u>	<u><u>\$48,790,823</u></u>	<u><u>\$56,680,259</u></u>

(1) Funds received through reciprocal agreements in these years were included in the categories of the holder who remitted to the reciprocal state.



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# Financial Statements

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**DEPARTMENT OF STATE TREASURER  
COMBINED BALANCE SHEET  
ALL DEPARTMENTAL OPERATING FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1989**

	<u>Governmental Fund Type</u> <u>General Fund (Departmental)</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,540
Accounts receivable - interdepartmental	14,842
Accounts receivable - local government	74,611
Accounts receivable - contributions	
Accounts receivable - other	78,263
Accrued interest receivable	
Inventories	23,669
Investments	
Fixed assets	
Total Assets	<u>\$195,925</u>
<b>LIABILITIES AND FUND EQUITY</b>	
<b>Liabilities:</b>	
Accounts payable - federal government	\$
Accounts payable - local government	
Accounts payable - interdepartmental	
Accounts payable - other	395,878
Accrued expenses	19,322
Total Liabilities	<u>415,200</u>
<b>Fund Equity:</b>	
Investment in fixed assets	
<b>Fund Balance:</b>	
Reserved for trust beneficiaries	
Reserved for inventories	23,669
Unreserved	(242,944)
Total Fund Balance	(219,275)
Total Fund Equity	(219,275)
Total Liabilities and Fund Balance	<u>\$195,925</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



Fiduciary Fund Type			Account Group	Total
Expendable Trust Funds	Pension Funds	Agency Fund	Fixed Assets (Departmental)	(Memorandum Only)
\$ 16,154,211	\$ 54,667,214	\$70,290,426	\$	\$ 141,116,391
336,606				351,448
				74,611
8,601,202	83,892,140			92,493,342
261,143	357,005			696,411
99,463	610,226	411,021		1,120,710
				23,669
161,390,733	14,718,832,930			14,880,223,663
			2,253,828	2,253,828
<u>\$186,843,358</u>	<u>\$14,858,359,515</u>	<u>\$70,701,447</u>	<u>\$2,253,828</u>	<u>\$15,118,354,073</u>
\$ 219,882	\$	\$	\$	\$ 219,882
		70,701,447		70,701,447
4,808,041				4,808,041
2,063,273	107,899			2,567,050
				19,322
<u>7,091,196</u>	<u>107,899</u>	<u>70,701,447</u>		<u>78,315,742</u>
			2,253,828	2,253,828
179,752,162	14,858,251,616			15,038,003,778
				23,669
				(242,944)
<u>179,752,162</u>	<u>14,858,251,616</u>			<u>15,037,784,503</u>
<u>179,752,162</u>	<u>14,858,251,616</u>		<u>2,253,828</u>	<u>15,040,038,331</u>
<u>\$186,843,358</u>	<u>\$14,858,359,515</u>	<u>\$70,701,447</u>	<u>\$2,253,828</u>	<u>\$15,118,354,073</u>



DEPARTMENT OF STATE TREASURER  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
ALL DEPARTMENTAL OPERATING FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	Governmental Fund Type General Fund (Departmental)
Revenues:	
Investment income	\$
Contributions (employer/employee)	
Federal grants	210,000
Court fees	
Current year's escheats	
Service charges	5,125,581
Income tax check-off	
Miscellaneous	99,265
Total Revenues	<u>5,434,846</u>
Expenditures:	
Current administration	
General	393,893
Escheats	617,080
Investment and banking	2,562,513
State and local gov't finance	1,462,372
Retirement systems	4,121,119
Advisory council-vocational ed	214,830
Retirement and other benefits paid	
Refunds	
Payments to political parties	
Management fees	
Total Expenditures	<u>9,371,807</u>
Revenues Over (Under) Expenditures	(3,936,961)
Other Financing Sources (Uses):	
Appropriations	3,739,531
Interdepartmental Transfers	<u>121,420</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(76,010)
Fund Balance: July 1, 1988	(124,529)
Adjust Reserve for Inventory	<u>(18,736)</u>
Fund Balance: June 30, 1989	<u>\$ (219,275)</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



Fiduciary Fund Types		Total (Memorandum Only)
Expendable Trust Funds	Pension Funds	
\$ 14,457,742	\$ 1,299,238,313	\$ 1,313,696,055
101,890,352	961,164,181	1,063,054,533
		210,000
1,012,914	4,548,529	5,561,443
9,569,638		9,569,638
		5,125,581
534,531		534,531
4,482	366,181	469,928
<u>127,469,659</u>	<u>2,265,317,204</u>	<u>2,398,221,709</u>
		393,893
		617,080
		2,562,513
		1,462,372
		4,121,119
		214,830
73,847,440	585,048,201	658,895,641
1,935,110	63,476,802	65,411,912
713,275		713,275
<u>1,017,473</u>	<u>3,757,070</u>	<u>4,774,543</u>
<u>77,513,298</u>	<u>652,282,073</u>	<u>739,167,178</u>
49,956,361	1,613,035,131	1,659,054,531
		3,739,531
<u>(4,710,607)</u>		<u>(4,589,187)</u>
45,245,754	1,613,035,131	1,658,204,875
134,506,408	13,245,216,485	13,379,598,364
		(18,736)
<u>\$179,752,162</u>	<u>\$14,858,251,616</u>	<u>\$15,037,784,503</u>



**DEPARTMENT OF STATE TREASURER**  
**STATEMENT OF DEPARTMENTAL RECEIPTS AND EXPENDITURES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**GENERAL FUND (Departmental Activities Only)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1989**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Departmental Expenditures			
Current administration:			
General administration	\$ 695,704	\$ 664,911	\$ 30,793
Escheat operations	732,050	682,954	49,096
Word processing	244,899	189,475	55,424
Data processing	1,381,148	1,229,861	151,287
Investment & banking operations	2,758,754	2,573,670	185,084
Local government operations	1,472,660	1,357,263	115,397
State bond issuance cost	132,500	26,931	105,569
Retirement operations	4,336,693	4,085,861	250,832
Advisory Council on Education	235,836	213,048	22,788
Reserves and transfers	3,681		3,681
Total Departmental Expenditures	<u>11,993,925</u>	<u>11,023,974</u>	<u>969,951</u>
Departmental Receipts			
Current administration:			
General administration	258,723	293,142	34,419
Escheat operations	732,050	682,954	(49,096)
Word processing	244,899	189,475	(55,424)
Data processing	1,381,148	1,229,861	(151,287)
Investment & banking operations	107,544	142,842	35,298
Local government operations	415,414	420,329	4,915
State bond issuance cost	132,500	26,931	(105,569)
Retirement operations	4,336,693	4,085,861	(250,832)
Advisory Council on Education	235,836	213,048	(22,788)
Total Departmental Receipts	<u>7,844,807</u>	<u>7,284,443</u>	<u>(560,364)</u>
Appropriation	<u>\$ 4,149,118</u>	<u>\$ 3,739,531</u>	<u>\$409,587</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
 NOTES TO THE FINANCIAL STATEMENTS  
 ALL DEPARTMENTAL OPERATING  
 FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 1989

1. Principles of Presentation

These statements include all operations of budgetary funds administered by the Department of State Treasurer. They do not reflect, nor are they intended to reflect the financial statements of the State of North Carolina. Nor do they reflect the investment activity of the State Treasurer except the results as shown in the budgetary funds. The activity of the investment pools is shown in separate financial statements published concurrently herewith. These operations are broken down by type of fund as follows:

A. Governmental Fund Types — Departmental Operations Only

**General Fund** — The operations shown include all administrative expenses and offsetting revenues in budget code 13410. Unexpended federal grant revenues in budget code 33410 are also included.

B. Fiduciary Fund Types

**Expendable Trust Funds** - Includes twelve trust funds whose corpus and income are restricted by law to expenditures necessary to carry out the funds' purpose. These trust funds are:

Disability Income Plan of North Carolina (Budget Code 63421)  
 Public Employees' Social Security Agency Fund (Budget Code 63411)  
 Teachers' and State Employees' Benefit Fund (Budget Code 63429)  
 Political Parties Finance Fund (Budget Code 63414)  
 Escheat Fund (Budget Code 63412)  
 Assurance of Land Title Fund (Budget Code 63415)  
 Legislative Retirement Fund (Budget Code 63422)  
 Absentee Insurance Fund (Budget Code 63416)  
 Presidential Election Year Campaign Fund (Budget Code 63418)  
 Pine Mountain Lakes Lot Purchase Fund (Budget Code 63419)  
 Register of Deeds Supplemental Pension Fund (Budget Code 63432)  
 Educational Facilities Finance Agency (Budget Code 63440)

**Pension Funds** - Includes five retirement trust funds:

Teachers' and State Employees' Retirement System (Budget Code 63423)  
 Local Governmental Employees' Retirement System (Budget Code 63426)  
 Consolidated Judicial Retirement System (Budget Code 63425)  
 N. C. National Guard Pension Fund (Budget Code 63430)  
 Legislative Retirement System (Budget Code 63431)

**Agency Fund** - Includes one fund to account for deposits made to the State Treasurer by local governmental units for investment purposes. (Budget Code 03410)

C. The Fixed Asset Account Group is a self-balancing set of accounts to record the stewardship of the Department for the furniture and equipment bought and used in the Department.

The financial statements are presented in accordance with the Statements of the Governmental Accounting Standards Board. The presentation differs from the classic presentations because of fundamental differences in operations in the Department from those illustrated in the classic presentations (1) because the Pension Funds purchase administrative services from the Central Fund by payment of management fees, there is no difference in the application of accounting principles between the pension funds and the governmental fund types. We have for the convenience of the reader included the pension funds with the governmental fund types in the Statement of Revenues, Expenditures and Changes in Fund Balance.



## 2. Summary of Significant Accounting Policies

- A. **Basis of Accounting** — Governmental and expendable trusts are accounted for on the cash basis of accounting during the year. At year end, necessary adjusting journal entries are made to change the basis of accounting to the modified accrual basis, which is the basis on which the funds are reported in these financial statements. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available to pay current-period liabilities. Expenditures are recognized on the accrual basis except that purchases of supplies for inventory are recognized as expenditures in the period in which the supplies were received.

Pension trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses when incurred.

- B. **Budgetary Control** — Budgetary control is exercised only over the operations accounted for by the Department in the General Fund. The budget as shown in the statements is the budget as adopted by the General Assembly and as modified in accordance with established statutory procedures. All appropriations lapsed at the end of the year.
- C. **Cash and Cash Equivalents** are the moneys of the various funds which the State Treasurer holds by law for transactional purposes. Interest is earned on the balances.
- D. **Inventories** — Inventories consist solely of postage and supplies and are recorded at estimated actual costs.
- E. **Fixed Assets** — Fixed assets are recorded at acquisition costs. The account group includes only those assets purchased by the Department and currently in service in the Department. Since all assets are acquired through the General Fund and used in General Fund operations, no depreciation is recognized.
- F. **Trust Fund Assets and Equity** — Assets of trust funds are maintained at cost. The net assets of each trust fund are held solely for the benefit of the lawful beneficiaries of the trust funds. Net assets of trust funds are shown in the financial statements as fund balance reserved for trust beneficiaries.
- G. **Investments and Investment Income** — It is the policy of the State to treat investments in, and investment income from, the Investment Pools of the State Treasurer as quasi-external transactions. Consequently the investments by the trust funds in the investment pools with medium to long-term horizons are shown as investments, and allocations of income from the investment pools are shown as investment income. Allocations of investment income are made by the investment pools on a pro rata basis from net income of each fund.
- H. **Management Fees** — All administrative operations are accounted for in the General Fund. Each trust fund benefiting from the administration is charged its calculated share of the administrative costs. Management fees are considered quasi-external transactions.
- I. **Interdepartmental Transfer/Receivable/Payable** — The major elements are transfers of resources to carry out programmatic activities in the receiving fund.
- J. **Vacation and Sick Pay** — Vacation and sick pay are recorded as expenditures only when taken (or paid in the case of vacation pay of retiring or terminating employees).

## 3. Deposits and Investments

Deposits and investments are reported in detail in the financial statements of the Pooled Investment Fund in the State Treasurer's Annual Report for June 30, 1989. As reported therein more fully, there are no material amounts of deposits which are not fully insured or collateralized. Total investments in short-term investments have a book value of \$3,056,785,431 and a market value of \$3,072,822,568. Investments in longer term securities have a book value of \$14,193,860,150 and a market value of \$15,517,750,719.



#### 4. Reconciliation of Budgetary Basis and GAAP Basis

The Combined Statement of Revenues and Expenditures — Budget and Actual for the General Fund presents the comparisons of the legally adopted budget with actual data recorded on the budgetary basis. Since there are substantial differences between the budgetary basis of accounting and the GAAP basis of accounting, the following provides the reconciliation between the two bases of accounting:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance</u>
Per budgetary basis, June 30, 1989	\$7,284,443	\$11,023,974	\$
Eliminate refunds of expenditures from both expenditures and receipts	(1,689,031)	(1,689,031)	
Eliminate carry-forwards from receipts and expenditures	(23,095)		(23,095)
Reclassify items to Transfers	(191,446)	(70,026)	
Net change in accruals at beginning and end of year	53,975	106,890	(52,915)
Adjustment to reserve fund balance			(18,736)
Fund balance at beginning of year			(124,529)
Per GAAP basis, June 30, 1989	<u>\$5,434,846</u>	<u>\$ 9,371,807</u>	<u>\$219,275</u>

There were no expenditures in excess of appropriations in a budget during the year.

#### 5. Vacation and Sick Leave

The Department, in accordance with State policy, records the cost of vacation and sick leave when taken and paid rather than when the leave is earned. State policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or paid upon termination of employment with the State. Under this policy, the accumulated vacation leave for each employee at each June 30th would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30. The accumulation of unused sick leave earned is unlimited, but the employee cannot be compensated for any unused sick leave upon termination of employment. Consequently, at June 30, 1988 the Department had an actual, but unrecorded, liability for unused vacation leave in the amount of \$394,015 and a contingent liability for the unused sick leave in the amount of \$1,209,724.

#### 6. General Fund — Departmental Deficit

The data shown for the General Fund in the financial statements is only that part of the General Fund operated through the Department. Negative figures shown are the accumulated differences in accruals between the budgetary basis and the GAAP basis. On the budgetary basis, there is zero fund balance for the Department.

#### 7. Fixed Assets

The breakdown by type of fixed assets at book value and the changes in fixed assets during the year are:

	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Office Furniture and Equipment	\$ 451,964	\$ 35,007	\$20,807	\$ 466,164
Data Processing Equipment	<u>1,620,378</u>	<u>202,282</u>	<u>34,996</u>	<u>1,787,664</u>
Total Fixed Assets	<u>\$2,072,342</u>	<u>\$237,289</u>	<u>\$55,803</u>	<u>\$2,253,828</u>

No depreciation has been recorded on any fixed asset.

#### 8. Pensions

All full-time permanent personnel in the Department are members of the Teachers' and State Employees' Retirement System. Total pension expense recorded during the year was \$574,904. Information on the Retirement System may be found in the annual report of the Department.



**DEPARTMENT OF STATE TREASURER  
COMBINING BALANCE SHEET  
DEPARTMENTAL EXPENDABLE TRUST FUNDS  
JUNE 30, 1989**

<b>ASSETS</b>	<b><u>Escheat Fund</u></b>	<b><u>Disability Income Plan of North Carolina</u></b>	<b><u>Teachers' and State Employees' Benefit Fund</u></b>	<b><u>Public Employees' Social Security Agency Fund</u></b>
Cash and cash equivalents	\$ 6,346,387	\$ 1,539,670	\$ 7,366,871	\$263,536
Accounts receivable - interdepartmental				
Accounts receivable - contributions		2,353,573	6,178,365	
Accounts receivable - other		259,209	1,934	
Accrued interest receivable	41,705	16,649	34,793	1,899
Investments	54,942,670	34,848,313	70,729,393	
<b>Total Assets</b>	<b><u>\$61,330,762</u></b>	<b><u>\$39,017,414</u></b>	<b><u>\$84,311,356</u></b>	<b><u>\$265,435</u></b>
 <b>LIABILITIES AND FUND EQUITY</b>				
<b>Liabilities</b>				
Accounts payable - federal government	\$	\$	\$	\$219,882
Accounts payable - interdepartmental	4,650,504		157,537	
Accounts payable - other	178,466	62,324	1,822,483	
<b>Total Liabilities</b>	<b>4,828,970</b>	<b>62,324</b>	<b>1,980,020</b>	<b>219,882</b>
 <b>Fund balance</b>				
Reserved for trust beneficiaries	56,501,792	38,955,090	82,331,336	45,553
<b>Total Fund Balance</b>	<b>56,501,792</b>	<b>38,955,090</b>	<b>82,331,336</b>	<b>45,553</b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$61,330,762</u></b>	<b><u>\$39,017,414</u></b>	<b><u>\$84,311,356</u></b>	<b><u>\$265,435</u></b>



<u>Legislative Retirement Fund</u>	<u>Reg. of Deeds Supplemental Pension Fund</u>	<u>Political Parties Finance Fund</u>	<u>Assurance of Land Title Fund</u>	<u>Absentee Insurance Fund</u>	<u>Pine Mountain Lakes Lot Purchase Fund</u>	<u>Educational Facilities Finance Agency</u>	<u>Total Expendable Trust Funds</u>
\$18,197	\$ 207,628	\$183,281	\$34,813	\$129,826	\$12,318	\$51,684	\$ 16,154,211
	69,264	336,606					336,606
							8,601,202
							261,143
147	1,673	1,321	251	936	89		99,463
	870,357						161,390,733
<u>\$18,344</u>	<u>\$1,148,922</u>	<u>\$521,208</u>	<u>\$35,064</u>	<u>\$130,762</u>	<u>\$12,407</u>	<u>\$51,684</u>	<u>\$186,843,358</u>
\$	\$	\$	\$	\$	\$	\$	\$ 219,882
							4,808,041
							2,063,273
							7,091,196
<u>18,344</u>	<u>1,148,922</u>	<u>521,208</u>	<u>35,064</u>	<u>130,762</u>	<u>12,407</u>	<u>51,684</u>	<u>179,752,162</u>
<u>18,344</u>	<u>1,148,922</u>	<u>521,208</u>	<u>35,064</u>	<u>130,762</u>	<u>12,407</u>	<u>51,684</u>	<u>179,752,162</u>
<u>\$18,344</u>	<u>\$1,148,922</u>	<u>\$521,208</u>	<u>\$35,064</u>	<u>\$130,762</u>	<u>\$12,407</u>	<u>\$51,684</u>	<u>\$186,843,358</u>



**DEPARTMENT OF STATE TREASURER**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**DEPARTMENTAL EXPENDABLE TRUST FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1989**

	<u>Escheat Fund</u>	<u>Disability Income Plan of North Carolina</u>	<u>Teachers' and State Employees' Benefit Fund</u>	<u>Public Employees' Social Security Agency Fund</u>
Revenues				
Investment income	\$ 5,330,374	\$ 2,198,400	\$ 6,798,837	\$14,655
Contributions (employer/employee)		26,560,145	74,461,654	
Court fees			1,010,990	
Current year's escheats	9,569,638			
Income tax check-off				
Miscellaneous	<u>1,182</u>			
Total Revenues	<u>14,901,194</u>	<u>28,758,545</u>	<u>82,271,481</u>	<u>14,655</u>
Expenditures				
Retirement and other benefits paid		3,404,860	70,150,304	
Refunds	1,858,669		76,441	
Payments to political parties				
Management fees	<u>681,052</u>	<u>194,734</u>	<u>53,854</u>	
Total Expenditures	<u>2,539,721</u>	<u>3,599,594</u>	<u>70,280,599</u>	
Revenues Over (Under) Expenditures	12,361,473	25,158,951	11,990,882	14,655
Other Financing Sources (Uses)				
Interdepartmental Transfers	<u>(4,650,504)</u>		<u>(60,103)</u>	
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	7,710,969	25,158,951	11,930,779	14,655
Fund Balance: July 1, 1988	<u>48,790,823</u>	<u>13,796,139</u>	<u>70,400,557</u>	<u>30,898</u>
Fund Balance: June 30, 1989	<u>\$56,501,792</u>	<u>\$38,955,090</u>	<u>\$82,331,336</u>	<u>\$45,553</u>



<u>Legislative Retirement Fund</u>	<u>Reg. of Deeds Supplemental Pension Fund</u>	<u>Political Parties Finance Fund</u>	<u>Assurance of Land Title Fund</u>	<u>Absentee Insurance Fund</u>	<u>Presidential Election Year Campaign Fund</u>	<u>Pine Mountain Lakes Lot Purchase Fund</u>	<u>Educational Facilities Finance Agency</u>	<u>Total Expendable Trust Funds</u>
\$ 2,069 84,108	\$ 76,984 784,445	\$ 4,399	\$ 2,784 1,924	\$ 10,660	\$ 2,279	\$ 1,022	\$15,279	\$ 14,457,742 101,890,352 1,012,914 9,569,638 534,531 4,482
<u>86,177</u>	<u>861,429</u>	<u>534,531</u> <u>538,930</u>	<u>4,708</u>	<u>3,300</u> <u>13,960</u>	<u>2,279</u>	<u>1,022</u>	<u>15,279</u>	<u>127,469,659</u>
85,975	206,301							73,847,440 1,935,110 713,275 1,017,473
<u>711</u>	<u>86,336</u>	<u>360,366</u>			<u>352,909</u>		<u>786</u>	<u>77,513,298</u>
<u>86,686</u>	<u>292,637</u>	<u>360,366</u>			<u>352,909</u>		<u>786</u>	
(509)	568,792	178,564	4,708	13,960	(350,630)	1,022	14,493	49,956,361
								(4,710,607)
(509)	568,792	178,564	4,708	13,960	(350,630)	1,022	14,493	45,245,754
<u>18,853</u>	<u>580,130</u>	<u>342,644</u>	<u>30,356</u>	<u>116,802</u>	<u>350,630</u>	<u>11,385</u>	<u>37,191</u>	<u>134,506,408</u>
<u>\$18,344</u>	<u>\$1,148,922</u>	<u>\$521,208</u>	<u>\$35,064</u>	<u>\$130,762</u>	<u>\$</u>	<u>\$12,407</u>	<u>\$51,684</u>	<u>\$179,752,162</u>



**DEPARTMENT OF STATE TREASURER  
COMBINING BALANCE SHEET  
DEPARTMENTAL PENSION FUNDS  
JUNE 30, 1989**

<b>ASSETS</b>	<b>Teachers' and State Employees' Retirement System</b>	<b>Local Governmental Employees' Retirement System</b>
Cash and cash equivalents	\$ 37,402,013	\$ 14,340,130
Accounts receivable - contributions	65,993,242	17,110,765
Accounts receivable - other	212,224	144,781
Accrued interest receivable	399,038	189,190
Investments	11,978,420,480	2,648,029,826
Total Assets	<u>\$12,082,426,997</u>	<u>\$2,679,814,692</u>
 <b>LIABILITIES AND FUND EQUITY</b>		
Liabilities		
Accounts payable - other	\$ 63,444	\$ 31,035
Total Liabilities	<u>63,444</u>	<u>31,035</u>
 Fund Balance		
Reserved for trust beneficiaries	<u>12,082,363,553</u>	<u>2,679,783,657</u>
Total Fund Balance	<u>12,082,363,553</u>	<u>2,679,783,657</u>
Total Liabilities and Fund Balance	<u>\$12,082,426,997</u>	<u>\$2,679,814,692</u>



<u>Consolidated Judicial Retirement System</u>	<u>National Guard Pension Fund</u>	<u>Legislative Retirement System</u>	<u>Total Pension Funds</u>
\$ 1,188,658	\$1,196,048	\$ 540,365	\$ 54,667,214
720,252		67,881	83,892,140
			357,005
10,261	8,216	3,521	610,226
82,589,348	6,242,627	3,550,649	14,718,832,930
<u>\$84,508,519</u>	<u>\$7,446,891</u>	<u>\$4,162,416</u>	<u>\$14,858,359,515</u>
\$ 1,885	\$ 11,535	\$	\$ 107,899
<u>1,885</u>	<u>11,535</u>		<u>107,899</u>
84,506,634	7,435,356	4,162,416	14,858,251,616
84,506,634	7,435,356	4,162,416	14,858,251,616
<u>\$84,508,519</u>	<u>\$7,446,891</u>	<u>\$4,162,416</u>	<u>\$14,858,359,515</u>



DEPARTMENT OF STATE TREASURER  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
DEPARTMENTAL PENSION FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	<u>Teachers' and State Employees' Retirement System</u>	<u>Local Governmental Employees' Retirement System</u>
Revenues		
Investment income	\$ 1,057,206,613	\$ 233,713,344
Contributions (employer/employee)	759,291,226	190,785,762
Court fees		4,548,529
Miscellaneous	348,579	17,377
Total Revenues	<u>1,816,846,418</u>	<u>429,065,012</u>
Expenditures		
Retirement and other benefits paid	488,135,087	90,418,632
Refunds	39,458,946	23,987,912
Management fees	2,759,583	966,284
Total Expenditures	<u>530,353,616</u>	<u>115,372,828</u>
Revenues Over (Under) Expenditures	1,286,492,802	313,692,184
Fund Balance: July 1, 1988	<u>10,795,870,751</u>	<u>2,366,091,473</u>
Fund Balance: June 30, 1989	<u>\$12,082,363,553</u>	<u>\$2,679,783,657</u>



<u>Consolidated Judicial Retirement System</u>	<u>National Guard Pension Fund</u>	<u>Legislative Retirement System</u>	<u>Total Pension Funds</u>
\$ 7,319,777	\$ 663,011	\$ 335,568	\$ 1,299,238,313
8,428,797	1,800,000	858,396	961,164,181
100		125	4,548,529
<u>15,748,674</u>	<u>2,463,011</u>	<u>1,194,089</u>	<u>366,181</u>
			<u>2,265,317,204</u>
5,475,969	811,743	206,770	585,048,201
22,889		7,055	63,476,802
18,223	10,916	2,064	3,757,070
<u>5,517,081</u>	<u>822,659</u>	<u>215,889</u>	<u>652,282,073</u>
10,231,593	1,640,352	978,200	1,613,035,131
<u>74,275,041</u>	<u>5,795,004</u>	<u>3,184,216</u>	<u>13,245,216,485</u>
<u>\$84,506,634</u>	<u>\$7,435,356</u>	<u>\$4,162,416</u>	<u>\$14,858,251,616</u>



**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
STATEMENT OF ASSETS AND LIABILITIES  
INVESTMENT FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989**

**ASSETS**

Cash in bank	\$ 40,729,757
Cash with Equity Managers	4,117,743
Accounts receivable - other	30,046,272
Accrued income receivable	313,279,591
Investments at book value	<u>17,687,881,581</u>
Total Assets	<u>\$18,076,054,944</u>

**LIABILITIES**

Accounts payable - other	79,440,817
Undistributed income	21,125,610
Deferred income	637,501
Participant balances	<u>17,974,851,016</u>
Total Liabilities	<u>\$18,076,054,944</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



**NORTH CAROLINA DEPARTMENT OF STATE TREASURER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES AND USES**  
**INVESTMENT FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1989**

**Revenues****Investment income**

Interest	\$1,277,699,562
Dividends	149,216,559
Income from real estate	9,941,899
Income from venture capital	28,920
Net gains (losses) from sales of securities	<u>136,046,249</u>

**Supplemental income from:**

Securities lending	4,001,846
Stock options written	851,815
Dividend reinvestments	99,054
Fail balance earnings	69,720
Miscellaneous	<u>93,875</u>

**Total Supplemental Income**5,116,310**Total Revenues**1,578,049,499**Expenditures**

Management fees	<u>2,433,251</u>
-----------------	------------------

**Net Income Available for Distribution**

1,575,616,248

**Income Distributed**(1,554,490,638)**Change in Undistributed Income**

21,125,610

**Undistributed Income, July 1, 1988****Undistributed Income, June 30, 1989**\$ 21,125,610

The accompanying Notes to the Financial Statements are an integral part of this Statement.



**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
POOLED INVESTMENT FUND  
JUNE 30, 1989**

**1. Principles of Presentation**

These statements include only the investment pools run by the State Treasurer. They do not nor are they intended to show any operations of the Department which are shown in financial statements published concurrently herewith. They do not reflect, nor are they intended to reflect the financial condition of the State of North Carolina.

**Fiduciary Fund Types**

**Investment Pools --** Includes within a single fund the seven investment pools established by the State Treasurer for the investment of all moneys deposited with the State Treasurer, whether State moneys or moneys voluntarily deposited for investment purposes only. The seven investment pools are:

**Short-term Investment Fund -** to provide for State moneys generally and all other moneys required to be deposited with the State Treasurer and moneys voluntarily deposited with the State Treasurer by State Agencies.

**Liquid Asset Fund -** to provide for the investment of moneys voluntarily deposited by non-State Agencies with the State Treasurer for investment only.

**Long-term Investment Fund -** to provide investments in intermediate and long-term Treasury, Agency and corporate bonds for the pension trust funds and certain large expendable trust funds.

**Equity Investment Fund -** to provide investments in equity securities for the pension trust funds.

**Real Estate Investment Fund -** to provide investments in real estate through trusts administered by third party professionals for the pension trust funds.

**Bond Proceeds Fund -** to provide for maintaining the records on investment of bond proceeds subject to federal arbitrage regulations and segregating the interest estimated to be subject to transfer to the U.S. Treasury.

**Venture Capital Investment Fund -** provides for investments in venture capital through trusts administered by third party professionals for the General and Highway Fund.

The investment pools have no counterparts in the literature on governmental accounting. The financial statements consist of a Statement of Assets and Liabilities, a Statement of Revenues, Expenditures and Other Financing Sources (Uses), and Notes to the Financial Statements. Since the investment pools have no fund balance, all assets held have an equal liability to some depositor. No cash flow statement is shown since the Statement of Revenues, Expenditures and Other Financing Sources (Uses) adequately reflects cash flows in the investment pools.

**2. Significant Accounting Policies**

**A. Basis of Accounting -** The investment pools are accounted for on the accrual basis. Security transactions are recorded as of trade date.

**B. There are no operations subject to budgetary control reflected in the statements of the investment pools.**

**C. Cash in Bank -** Deposits received and warrants cleared by the banks are reported as of the date recorded on the bank's books.

**D. Investments -** Investments are accounted for on the accrual basis and are reported at book value. Book value is equivalent to the original cost adjusted for the amortization of premium or discount on the scientific method. Average cost is used to calculate gain or loss on the sale of a security.

From time to time, bonds held are exchanged with a broker for other bonds offered by the broker. All exchanges are on a par-for-par basis and result in either an improvement in yield or an improvement in quality or both. Exchanges are considered to be non-market transactions because of their overall size in



relation to the normal lots of the securities sold in the marketplace and because of the lack of an appropriate basis for estimating an equivalent market price. Because of these two conditions, exchanges are accounted for as nonmonetary transactions under APB Opinion 29.

- E. Transactions in Process - Deposits in banks are reported and recorded one or more days prior to the time that the budget code to be credited is known. Warrants to be cleared by the clearing banks are reported one day prior to the time that the disbursing account to be charged is known. The amount shown as transactions in process is the net of the deposits and warrants cleared reported as changes in Cash-in-Bank but not as changes to the liabilities to specific participants.
- F. Deposits are the liability of the investment pools for moneys deposited therein and invested by the pools.
- G. Income is distributed monthly by the Short-term, Long-term and Equity Investment Funds, daily by the Liquid Asset Fund, quarterly by the Real Estate Investment Fund, at the end of the arbitrage period by the Bond Proceeds Fund and as cash earnings are received by the Venture Capital Investment Fund.
- H. Expenses of the investment funds are paid from budget code 13410 and are funded from the State's General Fund. Periodically, each investment fund reimburses the General Fund for its allocated share of those expenses by depositing money to General Fund budget code 19997 "Banking and Investment Fees."

### 3. Deposits and Investments

Under State statutes, the State Treasurer by virtue of his office holds substantial amounts of cash and investments for the various funds of the State. Under the authority of these statutes and except for one account related to federal bond arbitrage regulations, the State Treasurer has elected to pool all cash and investments held by him for the State into six investments pools which are an integral part of the Investment Fund. Net income for each investment pool is allocated to each participating fund which is legally eligible to receive investment income from the deposits with the State Treasurer.

**Deposits --** Deposits may be made in any bank, savings and loan association or trust company in the State designated by the State Treasurer, provided the total balance is either insured or collateralized. Depositories are required in accordance with the Rules in 20 NCAC 7, to collateralize all balances of the State Treasurer which are not insured. Basically, these rules require that the bank transfer to a third party escrow account established by the State Treasurer, securities of a type enumerated in the rules, in an amount whose market value is not less than the amount of the time deposits and the average balance of demand deposits for the preceding quarter less the allowable deposit insurance on the deposits. Generally, the rules require the securities to be governmental in origin (e.g. U. S. Treasury and Agency securities or State and local obligations) plus the highest grade commercial paper and bankers' acceptances. Each bank may elect to collateralize State deposits separately (Option 1) or to include the deposits of local governmental units in North Carolina in the same collateral pool (Option 2). Banks report only quarterly on bank balances and amounts deposited in escrow as collateralizations of deposits. The State Treasurer maintains no records of bank balances of local governments collateralized in the pool with State deposits. Since the market value of the securities pledged as collateral and the amounts of local government deposits in Option 2 banks are not known, the State's risk of being undercollateralized at times is increased. The deposits at June 30, 1989 were either insured or collateralized and consisted of:

	<u>Per State</u>	<u>Per Bank</u>
Demand deposits	\$ 40,729,757	\$ 43,777,145
Cash with Equity Managers	4,117,743	4,286,475
Time deposits	<u>425,686,000</u>	<u>425,686,000</u>
Total short term deposits	470,533,500	473,749,620
Long term time deposits	<u>11,550,000</u>	<u>11,550,000</u>
Total Deposits in Banks	<u>\$482,083,500</u>	<u>\$485,299,620</u>

Deposits made by State agencies outside of Raleigh are posted by the State Treasurer to the books on the date he is notified of a deposit which may be one or more days after a deposit is made. Most deposits outside of Raleigh are made in "cash concentration accounts" which are automatically transferred the following morning. Excess balances are always invested overnight.



There is no material difference between book and market values of short-term deposits. The market value of long-term time deposits do not vary significantly from stated book value. In the hands of the State Treasurer, the long-term time deposits are a non-marketable security (collateralized deposits), which are not generally traded. If sold, the long-term time deposits would lose that collateralization and would be a different security type. The State Treasurer intends to hold the long-term time deposits to maturity.

**Investments - Short-Term --** These are investments of that part of the transactional balances of the various funds of the State which are not required at that time for making expenditures. The statute permits the investment of these moneys in U. S. Treasury and Agency securities, in commercial paper of the highest quality and in bankers' acceptances of North Carolina banks or other high quality American banks. These securities may also be purchased through repurchase agreements. At June 30, 1989 the short-term investments consisted of:

	<u>Carrying Value</u>	<u>Market Value</u>
U. S. Treasury and Agency securities	\$ 2,662,336,583	\$ 2,677,492,234
Corporate Medium Term Notes	96,318,848	97,200,350
Repurchase agreements	298,130,000	298,130,000
Total	<u>\$ 3,056,785,431</u>	<u>\$ 3,072,822,584</u>

**Investments - Long-Term --** Pension funds and other large fiduciary funds have long investment horizons, and under the statutes may invest in certain high-quality corporate debt securities in addition to those securities which are permitted for short-term investment. In addition, the pension funds may invest in equity securities and real estate which meet the tests set out in the statute. At June 30, 1989, long-term investments consisted of:

	<u>Carrying Value</u>	<u>Market Value</u>
U. S. Treasury and Agency securities	\$ 4,156,725,869	\$ 4,651,819,234
International	285,794,505	321,646,710
Corporate bonds	6,044,610,886	6,058,448,172
Corporate equities	3,159,055,781	3,908,931,415
Mutual funds	50,384,563	52,308,199
Common Trust Funds	306,154,936	331,460,442
Real estate	182,812,882	185,095,907
Venture Capital	8,320,728	8,040,644
Total	<u>\$14,193,860,150</u>	<u>\$15,517,750,723</u>

**Custody of Investment Securities --** All investments are held either by the State Treasurer or by a New York bank acting as custodian for the State Treasurer. Wherever possible, securities are held in book-entry form, because it is more efficient to do so. In addition from time to time, securities are lent to broker/dealers for a fee. Whenever securities are lent, the loan is secured either by cash or U. S. Treasury securities valued at market on a current basis. During the year, the net income from securities lending was \$4,001,846.

**Risk Assessment --** If all transactions occur as required by the written procedures, and if all bank deposits are collateralized by the banks in accordance with the rules, all deposits and investments are considered to be "insured or collateralized with security held by the entity or by its agent in the entities' names". Possible deviations from the intent of the procedures are:

- Bank deposits where the actual but unknown market value of the collateral is less than the actual deposits;
- Bank deposits in banks which have not properly pledged collateral in accordance with the legal requirements; and
- Some unusual transactions which allowed the related investments to be out of custody for a short while.

The State Treasurer does not know of any events at June 30, 1989 to which any of the exceptions apply.



#### 4. Stock Options

The Equity Investment Fund occasionally sells call options against common stock owned to enhance total earnings of the fund. The premiums received are maintained in investment inventory accounts until the option is repurchased in the market, exercised or expired. When the option is repurchased in the market, the position is closed and any resulting gain or loss on the transaction will be shown in the income accounts as supplemental income or loss on stock options written. When the option is exercised, the position is closed and the net premium received is used to increase the gain or reduce the loss shown on the sale of the underlying stock. When the option is expired, the position is closed and the net premium on the option is shown in the income accounts as supplemental income from stock options written. For the fiscal year ended June 30, 1989, supplemental income from stock options written was \$851,815. At June 30, 1989, there were outstanding covered call transactions covering 331,500 shares of stock held in the portfolio. These options had an original net premium of \$626,668 and a current market value of \$676,675. The underlying shares had a book value of \$15,997,070 and a market value of \$20,745,050.

#### 5. Deferred Income

Deferred income in the Long-term Investment Fund is the amount of interest charged to accounts receivable from brokers and the amount of discount or premium to be amortized which will both be earned between the date of the financial statements and the settlement date of the sales made or recorded on or before the date of the financial statements.



**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
STATEMENT OF ASSETS AND LIABILITIES BY SEGMENT  
POOLED INVESTMENT FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989**

	SEGMENT		
ASSETS	SHORT-TERM INVESTMENT FUND	LIQUID ASSET FUND	LONG-TERM INVESTMENT FUND
Cash in bank	\$ 40,728,759	\$	\$
Deposits in Short-term Investment Fund		2,133,845	165,756,532
Cash with Equity Managers			
Accounts receivable - other	353		7,959,740
Accrued income receivable	62,342,297		239,949,700
Investments at book value	3,449,007,431		10,498,281,260
Total Assets	<u>\$3,552,078,840</u>	<u>\$2,133,845</u>	<u>\$10,911,947,232</u>
LIABILITIES			
Accounts payable - other	\$	\$	\$ 57,121,681
Undistributed income	21,125,610		
Deferred income			10,833
Participant balances	3,530,953,230	2,133,845	10,854,814,718
Total Liabilities	<u>\$3,552,078,840</u>	<u>\$2,133,845</u>	<u>\$10,911,947,232</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



EQUITY INVESTMENT FUND	REAL ESTATE INVESTMENT FUND	BOND PROCEEDS FUND	VENTURE CAPITAL INVESTMENT FUND	MEMORANDUM	
				INTRAFUND ELIMINATIONS	TOTAL
\$	\$	\$ 998	\$	\$	\$ 40,729,757
363,170,847	16,518,650		46,383	(547,626,257)	
4,117,743					4,117,743
21,942,157	144,022				30,046,272
10,935,617		51,977			313,279,591
3,515,595,280	182,812,882	33,864,000	8,320,728		17,687,881,581
<u>\$3,915,761,644</u>	<u>\$199,475,554</u>	<u>\$33,916,975</u>	<u>\$8,367,111</u>	<u>\$(547,626,257)</u>	<u>\$18,076,054,944</u>
\$ 22,318,783	\$	\$ 353	\$	\$	\$ 79,440,817
					21,125,610
626,668					637,501
3,892,816,193	199,475,554	33,916,622	8,367,111	(547,626,257)	17,974,851,016
<u>\$3,915,761,644</u>	<u>\$199,475,554</u>	<u>\$33,916,975</u>	<u>\$8,367,111</u>	<u>\$(547,626,257)</u>	<u>\$18,076,054,944</u>



NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
STATEMENT OF REVENUES, EXPENDITURES  
AND OTHER FINANCING SOURCES AND USES BY SEGMENT  
POOLED INVESTMENT FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	<u>SHORT-TERM INVESTMENT FUND</u>	<u>LIQUID ASSET FUND</u>
Revenues		
Investment income		
Interest	\$296,794,436	\$335,820
Short-term Investment Fund Earnings		335,820
Dividends		
Income from real estate		
Income from venture capital		
Net gains (losses) from sales of securities	<u>3,458,752</u>	<u>          </u>
Supplemental income from:		
Securities lending	1,714,716	
Stock options written		
Dividend reinvestments		
Fail balance earnings	(17,308)	
Miscellaneous		
Total Supplemental Income	<u>1,697,408</u>	<u>          </u>
Total Revenues	<u>301,950,596</u>	<u>335,820</u>
Expenditures		
Management fees	<u>740,725</u>	<u>356</u>
Net Income Available for Distribution	301,209,871	335,464
Interest Distributed	<u>(280,084,261)</u>	<u>(335,464)</u>
Change in Undistributed Income	21,125,610	
Undistributed Income, July 1, 1988		
Undistributed Income, June 30, 1989	<u><u>\$21,125,610</u></u>	<u><u>\$          </u></u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



<u>LONG-TERM INVESTMENT FUND</u>	<u>EQUITY INVESTMENT FUND</u>	<u>REAL ESTATE INVESTMENT FUND</u>	<u>BOND PROCEEDS FUND</u>	<u>VENTURE CAPITAL INVESTMENT FUND</u>	<u>INTERFUND ELIMINATIONS</u>	<u>TOTAL</u>
\$977,365,584	\$ 1,472,420	\$	\$2,067,122	\$	\$	\$1,277,699,562
10,191,772	27,461,944	1,315,181		976	(39,305,693)	
	149,216,559					149,216,559
		9,941,899				9,941,899
				28,920		28,920
<u>6,633,274</u>	<u>125,954,223</u>					<u>136,046,249</u>
2,228,969	58,161					4,001,846
	851,815					851,815
	99,054					99,054
86,105	923					69,720
	93,875					93,875
<u>2,315,074</u>	<u>1,103,828</u>					<u>5,116,310</u>
<u>986,313,932</u>	<u>277,747,030</u>	<u>9,941,899</u>	<u>2,067,122</u>	<u>28,920</u>	<u>(39,305,693)</u>	<u>1,578,049,499</u>
596,860	1,082,289	9,939	2,956	126		2,433,251
995,908,844	304,126,685	11,247,141	2,064,166	29,770	(39,305,693)	1,575,616,248
<u>(995,908,844)</u>	<u>(304,126,685)</u>	<u>(11,247,141)</u>	<u>(2,064,166)</u>	<u>(29,770)</u>	<u>39,305,693</u>	<u>(1,554,490,638)</u>
\$	\$	\$	\$	\$	\$	\$ 21,125,610
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 21,125,610</u>



**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
SCHEDULE OF INVESTMENTS BY TYPE BY SEGMENT  
POOLED INVESTMENT FUND  
AT JUNE 30, 1989**

<b>SECURITY TYPE</b>	<b>SHORT-TERM INVESTMENT FUND</b>	<b>LONG-TERM INVESTMENT FUND</b>	<b>EQUITY INVESTMENT FUND</b>
Repurchase agreements	\$ 264,266,000	\$	\$
Certificates of deposit	425,686,000		
Treasury and agency securities	2,662,336,583	2,868,096,700	
Corporate bonds	96,318,848	6,044,610,886	
International bonds		285,794,505	
Mortgage backed securities (GNMA's)		1,288,629,169	
Long-term certificates of deposit	400,000	11,150,000	
Equity securities:			
Common stock			3,158,199,591
Convertible preferred stock			856,190
Trust funds			306,154,936
Mutual funds			50,384,563
Real estate investments			
Venture capital investments			
<b>TOTAL INVESTMENTS AT BOOK</b>	<b><u>\$3,449,007,431</u></b>	<b><u>\$10,498,281,260</u></b>	<b><u>\$3,515,595,280</u></b>
 Percent of total	 19.50 %	 59.35 %	 19.88 %
 <b>TOTAL INVESTMENTS AT MARKET</b>	 <b>\$3,465,044,584</b>	 <b>\$11,043,064,116</b>	 <b>\$4,292,700,056</b>
 Percent of total	 18.21 %	 58.04 %	 22.56 %

The accompanying Notes to the Financial Statements are an integral part of this Statement.



<u>REAL ESTATE INVESTMENT FUND</u>	<u>BOND PROCEEDS FUND</u>	<u>VENTURE CAPITAL INVESTMENT FUND</u>	<u>TOTAL BOOK VALUE</u>	<u>% of TOTAL</u>	<u>MARKET VALUE</u>	<u>% OF TOTAL</u>
\$	\$33,864,000	\$	\$ 298,130,000	1.69%	\$ 298,130,000	1.57%
			425,686,000	2.41	425,686,000	2.24
			5,530,433,283	31.27	5,943,855,212	31.24
			6,140,929,734	34.71	6,155,648,522	32.35
			285,794,505	1.62	321,646,710	1.69
			1,288,629,169	7.29	1,385,456,256	7.28
			11,550,000	0.07	11,550,000	0.06
			3,158,199,591	17.86	3,907,358,599	20.54
			856,190	0.00	1,572,816	0.01
			306,154,936	1.73	331,460,442	1.74
			50,384,563	0.28	52,308,199	0.27
182,812,882			182,812,882	1.03	185,095,907	0.97
		8,320,728	8,320,728	0.05	8,040,644	0.04
<u>\$182,812,882</u>	<u>\$33,864,000</u>	<u>\$8,320,728</u>	<u>\$17,687,881,581</u>	<u>100.00%</u>		
1.03%	0.19%	0.05%	100.00%			
185,095,907	33,864,000	8,040,644			<u>\$19,027,809,307</u>	<u>100.00%</u>
0.97%	0.18%	0.04%			100.00%	



**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
SCHEDULE OF PARTICIPANTS' BALANCES BY TYPE  
POOLED INVESTMENT FUND  
AT JUNE 30, 1989**

PARTICIPANT TYPE	<u>SHORT-TERM INVESTMENT FUND</u>	<u>LIQUID ASSET FUND</u>	<u>LONG-TERM INVESTMENT FUND</u>
State Government:			
General Fund	\$ 858,748,899	\$	\$
Highway Fund	389,791,764		
University funds	208,678,010		
Pension trust funds	62,954,836		10,693,423,985
Other State funds	<u>1,408,369,161</u>	<u>                    </u>	<u>161,390,733</u>
Total State Government	<u>2,928,542,670</u>	<u>                    </u>	<u>10,854,814,718</u>
Local Government	<u>68,156,581</u>	<u>2,133,845</u>	<u>                    </u>
Other Investment Funds	<u>547,626,257</u>	<u>                    </u>	<u>                    </u>
Transactions in process	<u>(13,372,278)</u>	<u>                    </u>	<u>                    </u>
Total Participants' Balances	<u><u>\$3,530,953,230</u></u>	<u><u>\$2,133,845</u></u>	<u><u>\$10,854,814,718</u></u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



<u>EQUITY INVESTMENT FUND</u>	<u>REAL ESTATE INVESTMENT FUND</u>	<u>BOND PROCEEDS FUND</u>	<u>VENTURE CAPITAL INVESTMENT FUND</u>	<u>TOTAL</u>
\$	\$	\$	\$5,679,889	\$ 864,428,788
			2,687,222	392,478,986
				208,678,010
3,892,816,193	199,475,554			14,848,670,568
		<u>33,916,622</u>		<u>1,603,406,156</u>
<u>3,892,816,193</u>	<u>199,475,554</u>	<u>33,916,622</u>	<u>8,367,111</u>	<u>17,917,932,868</u>
				<u>70,290,426</u>
				<u>(13,372,278)</u>
<u>\$3,892,816,193</u>	<u>\$199,475,554</u>	<u>\$33,916,622</u>	<u>\$8,367,111</u>	<u>\$17,974,851,016</u>



NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
SCHEDULE OF PARTICIPANTS' DISTRIBUTED EARNINGS BY TYPE  
POOLED INVESTMENT FUND  
AT JUNE 30, 1989

PARTICIPANT TYPE	SHORT-TERM INVESTMENT FUND	LIQUID ASSET FUND	LONG-TERM INVESTMENT FUND
State Government:			
General Fund	\$139,553,252	\$	\$
Highway Fund	30,558,023		
University funds	20,331,163		
Pension trust funds	11,279,653		982,605,736
Other State funds	53,644,246		13,303,108
Total State Government	<u>255,366,337</u>		<u>995,908,844</u>
Local Government	<u>6,537,841</u>	<u>335,464</u>	
Other Investment Funds	<u>39,305,693</u>		
Total Income	301,209,871	335,464	995,908,844
Undistributed Income	(21,125,610)		
Total Income Distributed	<u>\$280,084,261</u>	<u>\$335,464</u>	<u>\$995,908,844</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



<u>EQUITY INVESTMENT FUND</u>	<u>REAL ESTATE INVESTMENT FUND</u>	<u>BOND PROCEEDS FUND</u>	<u>VENTURE CAPITAL INVESTMENT FUND</u>	<u>INTERFUND ELIMINATIONS</u>	<u>TOTAL</u>
\$	\$	\$	\$23,098 6,672	\$	\$ 139,576,350 30,564,695 20,331,163 1,309,259,216 69,011,520
304,126,685	11,247,142	2,064,166			1,568,742,944
<u>304,126,685</u>	<u>11,247,142</u>	<u>2,064,166</u>	<u>29,770</u>		<u>1,568,742,944</u>
					6,873,305
				(30,305,693)	
304,126,685	11,247,142	2,064,166	29,770	(39,305,693)	1,575,616,249 (21,125,610)
<u>\$304,126,685</u>	<u>\$11,247,142</u>	<u>\$2,064,166</u>	<u>\$29,770</u>	<u>\$(39,305,693)</u>	<u>\$1,554,490,639</u>



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# Statistical Tables

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## COMPARATIVE SUMMARY OF TRUST FUND INVESTMENTS

	Short-term Investment Fund		Long-term Investment Fund	
	Amount Invested*	Yield**	Amount Invested	Yield**
Retirement Trust Funds:				
Teachers and State Employees' Retirement System:				
June 30, 1988	\$ 22,824,540	9.051	\$ 7,770,424,577	9.655
June 30, 1989	43,266,446	8.595	8,669,444,667	9.680
Local Governmental Employees' Retirement System:				
June 30, 1988	3,767,740	9.051	1,736,123,063	9.655
June 30, 1989	15,605,056	8.595	1,908,834,026	9.680
North Carolina Firemen's Pension Fund:				
June 30, 1988	1,106,384	9.051	40,110,755	9.655
June 30, 1989	1,075,685	8.595	43,290,796	9.680
Rescue Squad Worker's Pension Fund:				
June 30, 1988	195,913	9.051	4,628,800	9.655
June 30, 1989	149,168	8.595	5,071,262	9.680
Consolidated Judicial Retirement System:				
June 30, 1988	551,233	9.051	54,037,109	9.655
June 30, 1989	1,189,949	8.595	59,707,892	9.680
N.C. National Guard Pension Fund:				
June 30, 1988	500,010	9.051	4,472,370	9.655
June 30, 1989	1,196,048	8.595	4,509,370	9.680
Legislative Retirement System:				
June 30, 1988	175,592	9.051	2,384,577	9.655
June 30, 1989	472,484	8.595	2,565,971	9.680
Total Retirement Trust Funds:				
June 30, 1988	29,121,412	9.051	9,612,181,251	9.655
June 30, 1989	62,954,836	8.595	10,693,423,984	9.680
	Percent of Total			
	0.4 %		72.1 %	
Other Trust Funds:				
Legislative Retirement Fund:				
June 30, 1988	18,853	9.051		
June 30, 1989	18,197	8.595		
N. C. Teachers' and State Employees' Benefit Trust:				
June 30, 1988	6,647,532	9.051	59,799,482	9.655
June 30, 1989	7,062,417	8.595	70,729,393	9.680
Disability Income Plan of North Carolina:				
June 30, 1988	10,562,626	9.051	806,311	9.655
June 30, 1989	1,338,703	8.595	34,956,199	9.680
Register of Deeds Supplemental Pension Fund				
June 30, 1988	507,430	9.051		
June 30, 1989	207,628	8.595	870,357	9.680
State Treasurer's Escheat Fund:				
June 30, 1988	5,764,510	9.051	47,253,830	9.655
June 30, 1989	6,346,388	8.595	54,834,784	9.680
Trust Funds for Education:				
June 30, 1988	39,310,523	9.051		
June 30, 1989	43,556,339	8.595		
Trust Funds for Community Colleges:				
June 30, 1988	4,740,712	9.051		
June 30, 1989	4,756,513	8.595		
State Property Fire Insurance Fund:				
June 30, 1988	27,874,568	9.051		
June 30, 1989	30,288,738	8.595		
UNC - Insured Student Loan Program:				
June 30, 1988	11,039,457	9.051		
June 30, 1989	9,677,305	8.595		
Wildlife Endowment Fund:				
June 30, 1988	15,003,952	9.051		
June 30, 1989	17,152,656	8.595		
Total Other Trust Funds:				
June 30, 1988	121,470,163	9.051	107,859,623	9.655
June 30, 1989	120,404,884	8.595	161,390,733	9.680
Grand Total All Trust Funds:				
June 30, 1988	\$150,591,575	9.051	9,720,040,874	9.655
June 30, 1989	\$183,359,720	8.595	10,854,814,717	9.680

\*Includes Float on Outstanding Unpaid Warrants.

\*\*Represents the average yield year to date.

Note: The annualized total return for the Real Estate Investment Fund at June 30, 1989 was 4.811%.



Table 1

For Years Ending June 30, 1988 - June 30, 1989

Real Estate Investment Fund		Equity Investment Fund		Total	
Amount Invested	Yield**	Amount Invested	Yield**	Amount Invested	Yield**
\$146,813,700	6.326	\$2,799,974,773	17.212	\$10,740,037,590	11.532
161,752,414	6.068	3,150,457,728	8.507	12,024,921,255	9.325
31,719,154	6.326	577,021,234	17.212	2,348,631,191	11.423
35,595,048	6.068	700,743,101	8.507	2,660,777,231	9.322
699,330	6.326	12,754,792	17.212	54,671,261	11.314
802,361	6.068	15,359,061	8.507	60,527,903	9.318
80,598	6.326	1,431,487	17.212	6,336,798	11.280
94,797	6.068	1,863,197	8.507	7,178,424	9.310
878,341	6.326	18,158,364	17.212	73,625,047	11.435
1,105,219	6.068	21,798,456	8.507	83,801,516	9.318
22,946	6.326	800,281	17.212	5,795,607	10.561
78,415	6.068	1,656,402	8.507	7,440,235	9.180
14,343	6.326	548,577	17.212	3,123,089	10.815
47,300	6.068	938,248	8.507	4,024,003	9.244
180,228,412	6.326	3,410,689,508	17.212	13,232,220,583	11.511
199,475,554	6.068	3,892,816,193	8.507	14,848,670,567	9.324
1.3 %		26.2 %		100.0 %	
				18,853	9.051
				18,197	8.595
				66,447,014	9.588
				77,791,810	9.573
				11,368,937	9.127
				33,547,016	9.622
				507,430	9.051
				1,077,985	9.447
				53,018,340	9.609
				63,929,058	9.608
				39,310,523	9.051
				43,556,339	8.595
				4,740,712	9.051
				4,756,513	8.595
				27,874,568	9.051
				30,288,738	8.595
				11,039,457	9.051
				9,677,305	8.595
				15,003,952	9.051
				17,152,656	8.595
				229,329,786	9.343
				281,795,617	9.203
\$180,228,412	6.326	\$3,410,689,508	17.212	\$13,461,550,369	11.475
\$199,475,554	6.068	\$3,892,816,193	8.507	\$15,130,466,184	9.322



**TREASURER'S CASH BALANCES**  
**June 30, 1989**

**CLEARING ACCOUNTS**

Raleigh, Branch Banking & Trust Co.	\$ 2,483,603
Raleigh, Central Carolina Bank & Trust Co., N. A.	2,023,150
Raleigh, First Citizens Bank & Trust Co.	7,703,186
Raleigh, First Union National Bank of N.C.	7,989,138
Raleigh, NCNB National Bank of N.C.	6,752,567
Unemployment Benefit Account	1,311,156
Unemployment Clearing Account	102,138
Raleigh, Peoples Bank & Trust Co.	1,270,899
Raleigh, The Planters National Bank & Trust Co.	1,234,635
Raleigh, Southern National Bank of N.C.	2,751,483
Raleigh, United Carolina Bank	2,484,939
Raleigh, Wachovia Bank & Trust Co., N.A.	15,237,698
<b>TOTAL CLEARING ACCOUNTS</b>	<b><u>\$51,344,592</u></b>

**AGENCY COLLECTION ACCOUNTS****ASHEBORO**

The First National Bank of Randolph County	\$ 1,572
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**ASHEVILLE**

Clyde Savings & Loan	1,453
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**BATH**

Southern Bank & Trust Co.	1,284
---------------------------	-------

**BURNSVILLE**

First Commercial	1,643
------------------	-------

**CAMDEN**

Bank of Currituck	1,902
-------------------	-------

**CANDOR**

First Bank	1,100
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**CHARLOTTE**

Republic Bank & Trust	1,963
-----------------------	-------

**COLUMBIA**

The East Carolina Bank	1,628
------------------------	-------

**CONCORD**

Security Bank	1,051
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**CRESWELL**

The East Carolina Bank	1,317
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**DURHAM**

Mechanics & Farmers Bank	1,447
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Village Bank	1,089
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**ELIZABETH CITY**

Peoples Bank & Trust Co.	1,898
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**FAIRFIELD**

The East Carolina Bank	1,606
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**FAYETTEVILLE**

United National Bank	1,736
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**GATESVILLE**

Southern Bank	1,938
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**GREENSBORO**

Greensboro National Bank	1,135
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**HENDERSONVILLE**

First Federal Savings Bank	1,699
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**HIGH POINT**

High Point Bank & Trust	1,397
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**JACKSON**

Peoples Bank & Trust	1,065
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<b>LENOIR</b>	
Bank of Granite	1,391
<b>LEWISTON</b>	
Southern Bank	1,526
<b>LEXINGTON</b>	
Lexington State Bank	2,155
<b>MANTEO</b>	
The East Carolina Bank	1,766
<b>MOYOCK</b>	
Bank of Currituck	1,943
<b>NAGS HEAD</b>	
The East Carolina Bank	293
<b>NEWLAND</b>	
Avery County Bank	1,002
<b>NEWTON</b>	
Bank of Granite	1,729
<b>OCRACOCK</b>	
The East Carolina Bank	1,810
<b>PANTEGO</b>	
Southern Bank & Trust	1,319
<b>PEMBROKE</b>	
Lumbee Bank	1,823
<b>PLYMOUTH</b>	
Southern Bank & Trust	1,053
<b>REIDSVILLE</b>	
First National Bank	1,556
<b>ROBBINS</b>	
First Bank	1,962
<b>ROCKY MOUNT</b>	
Peoples Bank & Trust Co.	1,711
<b>SALISBURY</b>	
Security Bank & Trust Co.	1,594
<b>SANFORD</b>	
First Carolina	1,057
<b>SEVEN SPRINGS</b>	
Southern Bank & Trust Co.	1,923
<b>SHELBY</b>	
First National	1,454
<b>SPRING LAKE</b>	
Peoples Bank & Trust Co.	1,378
<b>SWAN QUARTER</b>	
The East Carolina Bank	1,578
<b>TARBORO</b>	
Peoples Bank & Trust Co.	1,763
<b>TROY</b>	
The Fidelity Bank	1,429
The First Bank	1,600
<b>WANCHESE</b>	
The East Carolina Bank	1,891
<b>WEST END</b>	
First Bank	1,193
<b>WINDSOR</b>	
Southern Bank & Trust Co.	1,677
<b>WINTON</b>	
Southern Bank & Trust Co.	1,763
<b>TOTAL AGENCY COLLECTION ACCOUNTS</b>	<u>\$ 73,262</u>
 Treasurer's Cash Balances Before Net Warrant Clearings and Deposits in Transit	 \$51,417,854
Net Warrant Clearings and Deposits in Transit	<u>(10,689,095)</u>
Treasurer's Cash Balances	<u>\$40,728,759</u>



**SECURITIES HELD IN TRUST**  
**JUNE 30, 1989**

<u>Description</u>	<u>Par Value</u>
Securities Held in Safekeeping:	
Atlantic & East Carolina Railroad Company	
Deposit to Insure Rental Agreement	\$ 50,000
Atlantic & North Carolina Railroad Company	
Treasury Stock (735 shares common stock)	73,500
Department of Public Education Literary Loan Notes	2,546,250
Securities Held as Good Faith Deposits:	
North Carolina Department of Agriculture	105,000
North Carolina Department of Revenue	1,018,344
Securities Held as Custodian:	
In Treasurer's Vault	
Long-term Investment Fund*	288,336,434
Short-term Investment Fund**	328,136,000
By Contractual Custodian Agreement:	
Short-term Investment Fund	2,835,000,000
Long-term Investment Fund	10,988,428,263
Equity Investment Fund	3,515,595,280
Real Estate Investment Fund	182,812,882
Venture Capital Investment Fund	8,320,728
Bond Proceeds Fund	33,864,000
Securities Owned by the State:	
North Carolina Railroad Company	
(3,000,200) shares common stock	1,500,100
Atlantic & North Carolina Railroad Company	
(12,666 shares common stock)	1,266,600
Securities Held by Escrow Agents to Secure Public Deposits	2,277,391,548
<b>Total</b>	<b><u><u>\$20,464,444,929</u></u></b>

\*Corporate Private Placements and Long-term CD's.

\*\*Certificates of Deposit and Saving Certificates



**GENERAL AND HIGHWAY FUNDS**  
**INCOME FROM TREASURER'S INVESTMENTS**  
**FISCAL YEARS 1949 THROUGH 1989**  
**(Accrual Basis)**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>General Fund</u>	<u>Highway Fund</u>	<u>Total</u> <u>General and</u> <u>Highway Fund</u>	<u>Average Annual</u> <u>Yield on 6 Months</u> <u>Treasury Bills</u>	<u>2 Year</u> <u>Constant Maturity</u>
				<u>Auction</u>	
1949	\$ 355,719	\$	\$ 355,719	1.50 %	%
1950	1,565,365		1,565,365	1.43 %	
1951	3,182,816		3,182,816	1.39 %	
1952	3,711,531		3,711,531	1.85 %	
1953	3,383,701		3,383,701	2.00 %	
1954	2,800,432		2,800,432	2.12 %	
1955	2,069,388		2,069,388	1.62 %	
1956	2,074,701		2,074,701	1.92 %	
1957	3,124,661		3,124,661	2.97 %	
1958	4,064,535		4,064,535	3.72 %	
1959	3,361,306		3,361,306	2.35 %	
1960	5,114,917		5,114,917	4.12 %	
1961	6,906,906		6,906,906	2.62 %	
1962	4,802,527	1,907,373	6,709,900	2.78 %	
1963	5,161,899	1,733,738	6,895,637	2.97 %	
1964	6,003,139	1,968,853	7,971,992	3.58 %	
1965	7,907,545	3,151,909	11,059,454	3.84 %	
1966	10,322,713	3,708,759	14,031,472	4.46 %	
1967	12,337,612	5,841,357	18,178,969	4.79 %	
1968	19,266,180	9,420,810	28,686,990	5.27 %	
1969	20,284,196	10,749,092	31,033,288	5.91 %	
1970	22,624,169	13,201,633	35,825,802	7.24 %	
1971	29,369,118	16,037,808	45,406,926	5.08 %	
1972	24,325,581	12,423,644	36,749,225	4.41 %	
1973	26,816,266	11,054,759	37,871,025	5.65 %	
1974	53,574,503	18,535,282	72,109,785	7.92 %	
1975	73,317,870	23,923,734	97,241,604	6.89 %	
1976	48,641,750	15,903,056	64,544,806	5.90 %	
1977	43,129,022	11,901,171	55,030,193	5.05 %	6.12 %
1978	44,087,283	9,927,820	54,015,103	6.45 %	7.30 %
1979	56,224,976	21,627,907	77,852,883	8.86 %	9.30 %
1980	93,499,189	19,761,250	113,260,439	11.12 %	11.15 %
1981	102,900,589	13,224,698	116,125,287	12.65 %	12.97 %
1982	115,671,991	21,107,338	136,779,329	13.22 %	14.65 %
1983	86,379,248	28,546,192	114,925,440	8.88 %	10.45 %
1984	98,885,947	30,160,751	129,046,698	9.45 %	11.20 %
1985	133,076,748	33,344,149	166,420,897	8.97 %	10.74 %
1986	151,346,427	26,485,263	177,831,690	6.90 %	8.05 %
1987	139,426,325	26,185,560	165,611,885	5.63 %	6.63 %
1988	164,540,208	33,925,222	198,465,430	6.31 %	7.77 %
1989	139,553,252	30,558,023	170,111,275	8.01 %	8.88 %
	<u>\$1,775,192,251</u>	<u>\$456,317,151</u>	<u>\$2,231,509,402</u>		



**GENERAL OBLIGATION BONDS  
LOCAL GOVERNMENT  
REFERENDA AND AUTHORIZATIONS**

Fiscal Year July 1, 1988 through June 30, 1989

	Propositions			Bonds		
	<u>Proposed</u>	<u>Approved</u>	<u>%</u> <u>Approved</u>	<u>Proposed</u>	<u>Approved</u>	<u>%</u> <u>Approved (\$)</u>
<b>COUNTIES:</b>						
Voted Propositions:						
Community Colleges and Technical Institutes	1	1	100 %	\$ 1,800,000	\$ 1,800,000	100 %
Economic Development	1	1	100	1,000,000	1,000,000	100
Law Enforcement	5	3	60	48,125,000	4,000,000	8
Parks and Recreation	1	1	100	12,000,000	12,000,000	100
Public Buildings	5	3	60	25,275,000	22,000,000	87
School	13	12	92	177,300,000	165,300,000	93
Solid Waste Disposal	1	1	100	27,500,000	27,500,000	100
Water	<u>5</u>	<u>4</u>	<u>80</u>	<u>12,250,000</u>	<u>9,150,000</u>	<u>75</u>
	<u>32</u>	<u>26</u>	<u>81 %</u>	<u>\$305,250,000</u>	<u>\$242,750,000</u>	<u>80 %</u>
Nonvoted Propositions:						
Hospital Refunding	1	1	100 %	\$ 2,727,000	\$ 2,727,000	100 %
Law Enforcement	1	1	100	6,800,000	6,800,000	100
Library	1	1	100	628,500	628,500	100
School Refunding	1	1	100	1,109,000	1,109,000	100
Water Refunding	<u>4</u>	<u>4</u>	<u>100</u>	<u>9,383,000</u>	<u>9,383,000</u>	<u>100</u>
	<u>8</u>	<u>8</u>	<u>100 %</u>	<u>\$ 20,647,500</u>	<u>\$ 20,647,500</u>	<u>100 %</u>
<b>DISTRICTS:</b>						
Voted Propositions:						
Water	<u>8</u>	<u>7</u>	<u>88 %</u>	<u>\$ 30,775,000</u>	<u>\$ 29,775,000</u>	<u>97 %</u>
Nonvoted Propositions:						
Water Refunding	8	8	100 %	\$ 9,442,702	\$ 9,442,702	100 %
Sewer Refunding	<u>1</u>	<u>1</u>	<u>100</u>	<u>1,108,000</u>	<u>1,108,000</u>	<u>100</u>
	<u>9</u>	<u>9</u>	<u>100 %</u>	<u>\$ 10,550,702</u>	<u>\$ 10,550,702</u>	<u>100 %</u>



	Propositions			Bonds		
	<u>Proposed</u>	<u>Approved</u>	<u>%</u> <u>Approved</u>	<u>Proposed</u>	<u>Approved</u>	<u>%</u> <u>Approved (\$)</u>
<b>MUNICIPALITIES:</b>						
<b>Voted Propositions:</b>						
Cultural Facilities	2	2	100 %	\$ 14,000,000	\$ 14,000,000	100 %
Electric	1	1	100	1,811,500	1,811,500	100
Fire Station	1	1	100	500,000	500,000	100
Housing	1	1	100	4,000,000	4,000,000	100
Public Building	1	1	100	1,000,000	1,000,000	100
Recreation Facility	5	3	60	18,675,000	16,500,000	88
Redevelopment	1	1	100	6,000,000	6,000,000	100
Sanitary Sewer	22	22	100	144,838,200	144,838,200	100
Street	3	3	100	176,400,000	176,400,000	100
Water	<u>15</u>	<u>14</u>	<u>93</u>	<u>108,340,500</u>	<u>68,340,500</u>	<u>63</u>
	<u>52</u>	<u>49</u>	<u>94 %</u>	<u>\$475,565,200</u>	<u>\$433,390,200</u>	<u>91 %</u>
<b>Nonvoted Propositions:</b>						
Fire Station Refunding	1	1	100 %	\$ 257,500	\$ 257,500	100 %
Municipal Building Refunding	2	2	100	1,711,000	1,711,000	100
Parks and Recreation	1	1	100	75,000	75,000	100
Parks and Recreation Refunding	1	1	100	1,414,000	1,414,000	100
Sanitary Sewer	2	2	100	660,500	660,500	100
Sanitary Sewer Refunding	19	19	100	13,122,800	13,122,800	100
Streets	1	1	100	251,000	251,000	100
Water	1	1	100	1,270,000	1,270,000	100
Water Refunding	18	18	100	10,339,700	10,339,700	100
Water and Sewer Refunding	<u>4</u>	<u>4</u>	<u>100</u>	<u>5,841,500</u>	<u>5,841,500</u>	<u>100</u>
	<u>50</u>	<u>50</u>	<u>100 %</u>	<u>\$ 34,943,000</u>	<u>\$ 34,943,000</u>	<u>100 %</u>
Total Voted	<u>92</u>	<u>82</u>	<u>89 %</u>	<u>\$811,590,200</u>	<u>\$705,915,200</u>	<u>87 %</u>
Total Nonvoted	<u>67</u>	<u>67</u>	<u>100 %</u>	<u>\$ 66,141,202</u>	<u>\$ 66,141,202</u>	<u>100 %</u>
Grand Total	<u>159</u>	<u>149</u>	<u>94 %</u>	<u>\$877,731,402</u>	<u>\$772,056,402</u>	<u>88 %</u>

Table 6

**INSTALLMENT AND LEASE AGREEMENTS**  
**APPROVED BY THE LOCAL GOVERNMENT COMMISSION**  
**Fiscal Year 1988-89**

	<u>No.</u>	<u>Amount</u>
Counties/Authorities	15	\$27,729,581
Municipalities	<u>5</u>	<u>10,673,946</u>
Total	<u>20</u>	<u>\$38,403,527</u>



Table 7

**SUMMARY OF STATE AND LOCAL GOVERNMENT  
DEBT AND AUTHORIZATIONS**  
At June 30, 1989

	General Obligations				Revenue Bonds	Industrial Revenue Bonds	Total Indebtedness	Authorized and Unissued Bonds
	Bonds	Literary Fund Loans	Bond Anticipation Notes	Total				
State	\$ 660,428,902	\$ —	\$ —	\$ 660,428,902	\$ —	\$ —	\$ 660,428,902	\$ —
State Authorities and Institutions	—	—	—	—	8,055,286,948	—	8,055,286,948	—
	<u>\$ 660,428,902</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 660,428,902</u>	<u>\$ 8,055,286,948</u>	<u>\$ —</u>	<u>\$ 8,715,715,850</u>	<u>\$ —</u>
Counties	\$1,311,292,015	\$1,546,250	\$18,290,000	\$1,331,128,265	\$ 199,204,245	\$ —	\$ 1,530,332,510	\$ 674,485,000
Municipalities	1,360,106,545	—	12,991,500	1,373,098,045	336,740,313	—	1,709,838,358	770,037,200
Districts	119,430,800	—	9,147,000	128,577,800	48,265,000	—	176,842,800	68,926,000
Authorities	—	—	—	—	375,127,222	2,000,257,147	2,375,384,369	—
	<u>\$2,790,829,360</u>	<u>\$1,546,250</u>	<u>\$40,428,500</u>	<u>\$2,832,804,110</u>	<u>\$ 959,336,780</u>	<u>\$2,000,257,147</u>	<u>\$ 5,792,398,037</u>	<u>\$1,513,448,200</u>
	<u>\$3,451,258,262</u>	<u>\$1,546,250</u>	<u>\$40,428,500</u>	<u>\$3,493,233,012</u>	<u>\$9,014,623,728</u>	<u>\$2,000,257,147</u>	<u>\$14,508,113,887</u>	<u>\$1,513,448,200</u>

Table 8

**ANNUAL DEBT REQUIREMENTS FOR STATE BONDS  
ISSUED AND OUTSTANDING<sup>1</sup>**  
At June 30, 1989

Fiscal Year	GENERAL		HIGHWAY		TOTAL	
	Existing Debt		Existing Debt		Existing Debt	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
1989-90	\$ 45,660,000	\$ 70,992,945.00	\$ 26,765,000	\$ 38,491,162.50	\$ 72,425,000	\$109,484,107.50
1990-91	45,660,000	68,446,882.50	27,330,000	37,392,600.00	72,990,000	105,839,482.50
1991-92	45,700,000	65,903,270.00	29,940,000	38,227,230.00	75,640,000	104,130,500.00
1992-93	45,200,000	62,762,077.50	31,640,000	38,018,250.00	76,840,000	100,780,327.50
1993-94	44,937,897	60,417,407.50	32,985,000	37,359,875.00	77,922,897	97,777,282.50
1994-95	44,670,324	57,705,182.50	25,090,000	27,664,550.00	69,760,324	85,369,732.50
1995-96	44,458,308	55,062,532.50	24,120,000	25,169,040.00	68,578,308	80,231,572.50
1996-97	41,922,114	50,061,645.00	4,860,000	5,010,660.00	46,782,114	55,072,305.00
1997-98	33,714,916	39,615,855.00			33,714,916	39,615,855.00
1998-99	30,297,302	34,299,175.00			30,297,302	34,299,175.00
1999-00	27,009,115	29,172,305.00			27,009,115	29,172,305.00
2000-01	3,364,772	4,582,500.00			3,364,772	4,582,500.00
2001-02	804,167	1,910,000.00			804,167	1,910,000.00
2002-03	752,158	1,910,000.00			752,158	1,910,000.00
2003-04	698,449	1,910,000.00			698,449	1,910,000.00
2004-05	652,953	1,910,000.00			652,953	1,910,000.00
2005-06	605,432	1,910,000.00			605,432	1,910,000.00
2006-07	565,723	1,910,000.00			565,723	1,910,000.00
2007-08	530,015	1,915,000.00			530,015	1,915,000.00
2008-09	495,257	1,915,000.00			495,257	1,915,000.00
	<u>\$457,698,902</u>	<u>\$614,311,777.50</u>	<u>\$202,730,000</u>	<u>\$247,333,367.50</u>	<u>\$660,428,902</u>	<u>\$861,645,145.00</u>

<sup>1</sup>Refunded debt of \$402,000,000 is not included since sufficient moneys have been placed with an escrow agent to pay all principal and interest and any premium on the bonds refunded to and including their respective maturities or dates of redemption.



**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE  
AUTHORITIES AND INSTITUTIONS  
At June 30, 1989**

Appalachian State University .....	\$ 14,116,055
East Carolina University .....	7,596,274
Elizabeth City State University .....	3,213,000
Fayetteville State University .....	2,495,000
North Carolina A & T State University .....	5,723,665
North Carolina Central University .....	4,923,643
North Carolina School of the Arts .....	1,916,725
North Carolina State University at Raleigh .....	42,282,351
Pembroke State University .....	827,300
University of North Carolina at Asheville .....	4,395,342
University of North Carolina at Chapel Hill .....	135,245,241
University of North Carolina at Charlotte .....	33,479,843
University of North Carolina at Greensboro .....	13,749,411
University of North Carolina at Wilmington .....	23,512,737
Western Carolina University .....	7,714,439
Winston-Salem State University .....	1,879,645
North Carolina Educational Facilities Finance Agency .....	105,956,979
North Carolina Housing Finance Agency .....	862,374,000 <sup>1</sup>
North Carolina Industrial Facilities and Pollution Control Financing Authority .....	7,550,000
North Carolina Medical Care Commission .....	1,021,040,763 <sup>2</sup>
North Carolina State Ports Authority .....	8,697,906
North Carolina ABC Commission .....	2,800,000
North Carolina Eastern Municipal Power Agency .....	3,296,005,629
North Carolina Municipal Power Agency No. 1 .....	2,447,167,000
North Carolina Battleship Commission .....	624,000
<b>Total .....</b>	<b><u>\$8,055,286,948</u></b>

<sup>1</sup>This indebtedness is created pursuant to authority granted to the North Carolina Housing Finance Agency to issue revenue bonds for housing for families of lower and moderate income as authorized by G. S. 122A-8.

<sup>2</sup>This indebtedness is created pursuant to authority granted to the North Carolina Medical Care Commission to issue revenue bonds for health care facilities as authorized by G. S. Chapter 131A.

Source: Chief fiscal officer of each authority or institution.



**VALUATION BALANCE SHEET**  
**TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA**

<b>ASSETS</b>	<u>December 31, 1988</u>	<u>December 31, 1987</u>
Current assets:		
Annuity Savings Fund	\$ 2,563,978,421	\$ 2,314,627,976
Pension Accumulation Fund	<u>8,822,698,364</u>	<u>7,884,478,940</u>
Total current assets	<u>\$11,386,676,785</u>	<u>\$10,199,106,916</u>
 Future member contributions to Annuity Savings Fund	 <u>\$ 3,127,928,742</u>	 <u>\$ 2,909,772,534</u>
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 2,533,622,281	\$ 2,497,554,758
Accrued liability contributions	1,292,071,969	1,330,637,708
Undistributed gain contributions	<u>391,631,345</u>	<u>446,081,058</u>
Total prospective contributions	<u>\$ 4,217,325,595</u>	<u>\$ 4,274,273,524</u>
Total Assets	<u><u>\$18,731,931,122</u></u>	<u><u>\$17,383,152,974</u></u>
 <b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 2,563,978,421	\$ 2,314,627,976
Future member contributions	<u>3,127,928,742</u>	<u>2,909,772,534</u>
Total contributions to Annuity Savings Fund	<u>\$ 5,691,907,163</u>	<u>\$5,224,400,510</u>
 Pension Accumulation Fund:		
Benefits currently in payment	\$ 4,094,016,317	\$ 3,707,166,285
Benefits to be paid to current active members	8,319,401,592	7,820,498,328
Reserve for increases in retirement allowances effective July 1, 1989 (July 1, 1988 for December 31, 1987 figure)	<u>234,974,705</u>	<u>185,006,793</u>
Reserve from undistributed gains	<u>391,631,345</u>	<u>446,081,058</u>
Total benefits payable from Pension Accumulation Fund	<u>\$13,040,023,959</u>	<u>\$12,158,752,464</u>
Total Liabilities	<u><u>\$18,731,931,122</u></u>	<u><u>\$17,383,152,974</u></u>

George B. Buck Consulting Actuaries, Inc.



**VALUATION BALANCE SHEET  
SHOWING THE ASSETS AND LIABILITIES OF THE  
NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

<b>ASSETS</b>	<u>December 31, 1988</u>	<u>December 31, 1987</u>
Current assets:		
Annuity Savings Fund	\$ 618,672,709	\$ 549,578,731
Pension Accumulation Fund	<u>1,896,696,465</u>	<u>1,676,144,704</u>
<b>Total current assets</b>	<b><u>\$2,515,369,174</u></b>	<b><u>\$2,225,723,435</u></b>
 Future member contributions to Annuity Savings Fund	 <u>\$ 904,567,524</u>	 <u>\$ 820,932,108</u>
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 591,784,353	\$ 456,018,561
Accrued liability contributions	96,384,315	102,048,690
Undistributed gain contributions	<u>95,081,309</u>	<u>167,416,199</u>
<b>Total prospective contributions</b>	<b><u>\$ 783,249,977</u></b>	<b><u>\$ 725,483,450</u></b>
<b>Total Assets</b>	<b><u>\$4,203,186,675</u></b>	<b><u>\$3,772,138,993</u></b>
 <b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 618,672,709	\$ 549,578,731
Future member contributions	<u>904,567,524</u>	<u>820,932,108</u>
<b>Total contributions to Annuity Savings Fund</b>	<b><u>\$1,523,240,233</u></b>	<b><u>\$1,370,510,839</u></b>
 Pension Accumulation Fund:		
Benefits currently in payment	\$ 760,195,341	\$ 669,064,980
Benefits to be paid to current active members	1,780,967,203	1,532,862,773
Reserve for increases in retirement allowances effective July 1, 1989 (July 1, 1988 for December 31, 1987 figure)	<u>43,702,589</u>	<u>32,284,202</u>
Reserve from undistributed gains	<u>95,081,309</u>	<u>167,416,199</u>
<b>Total benefits payable from Pension Accumulation Fund</b>	<b><u>\$2,679,946,442</u></b>	<b><u>\$2,401,628,154</u></b>
<b>Total Liabilities</b>	<b><u>\$4,203,186,675</u></b>	<b><u>\$3,772,138,993</u></b>

George B. Buck Consulting Actuaries, Inc.



**VALUATION BALANCE SHEET  
SHOWING THE ASSETS AND LIABILITIES OF THE  
NORTH CAROLINA CONSOLIDATED JUDICIAL RETIREMENT SYSTEM**

<b>ASSETS</b>	<u>December 31, 1988</u>	<u>December 31, 1987</u>
Current assets:		
Annuity Savings Fund	\$ 11,026,272	\$ 9,687,031
Pension Accumulation Fund	<u>68,177,569</u>	<u>59,899,908</u>
Total current assets	<u>\$ 79,203,841</u>	<u>\$ 69,586,939</u>
 Future member contributions to Annuity Savings Fund	 <u>\$ 19,285,035</u>	 <u>\$ 18,907,566</u>
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 46,592,872	\$ 46,206,830
Accrued liability contributions	22,916,077	22,612,481
Undistributed gain contributions	<u>11,409,615</u>	<u>9,992,084</u>
Total prospective contributions	<u>\$ 80,918,564</u>	<u>\$ 78,811,395</u>
Total Assets	<u><u>\$179,407,440</u></u>	<u><u>\$167,305,900</u></u>
 <b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 11,026,272	\$ 9,687,031
Future member contributions	<u>19,285,035</u>	<u>18,907,566</u>
Total contributions to Annuity Savings Fund	<u>\$ 30,311,307</u>	<u>\$ 28,594,597</u>
 Pension Accumulation Fund:		
Benefits currently in payment	\$ 40,387,887	\$ 37,412,755
Benefits to be paid to current active members	95,789,406	89,908,858
Reserve for increases in retirement allowances effective July 1, 1989 (July 1, 1988 for December 31, 1987 figure)	<u>1,509,225</u>	<u>1,397,606</u>
Reserve from undistributed gains	<u>11,409,615</u>	<u>9,992,084</u>
Total benefits payable from Pension Accumulation Fund	<u>\$149,096,133</u>	<u>\$138,711,303</u>
Total Liabilities	<u><u>\$179,407,440</u></u>	<u><u>\$167,305,900</u></u>

George B. Buck Consulting Actuaries, Inc.



**VALUATION BALANCE SHEET**  
**SHOWING THE ASSETS AND LIABILITIES OF THE**  
**NORTH CAROLINA NATIONAL GUARD PENSION FUND**  
 Prepared As of December 31, 1988

**ASSETS**

Present Assets		\$ 7,505,882
Present value of prospective contributions payable by State:		
Normal contributions	\$ 1,471,119	
Accrued liability contribution	<u>16,397,135</u>	
Total Prospective Contributions by State		<u>17,868,254</u>
Total Assets		<u><u>\$25,374,136</u></u>

**LIABILITIES**

Present value of pensions payable to retired members	\$ 6,051,630
Present value of deferred pension payable to former members	6,688,064
Present value of prospective pensions to active members included in the valuation	<u>12,634,442</u>
Total Liabilities	<u><u>\$25,374,136</u></u>

George B. Buck Consulting Actuaries, Inc.



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